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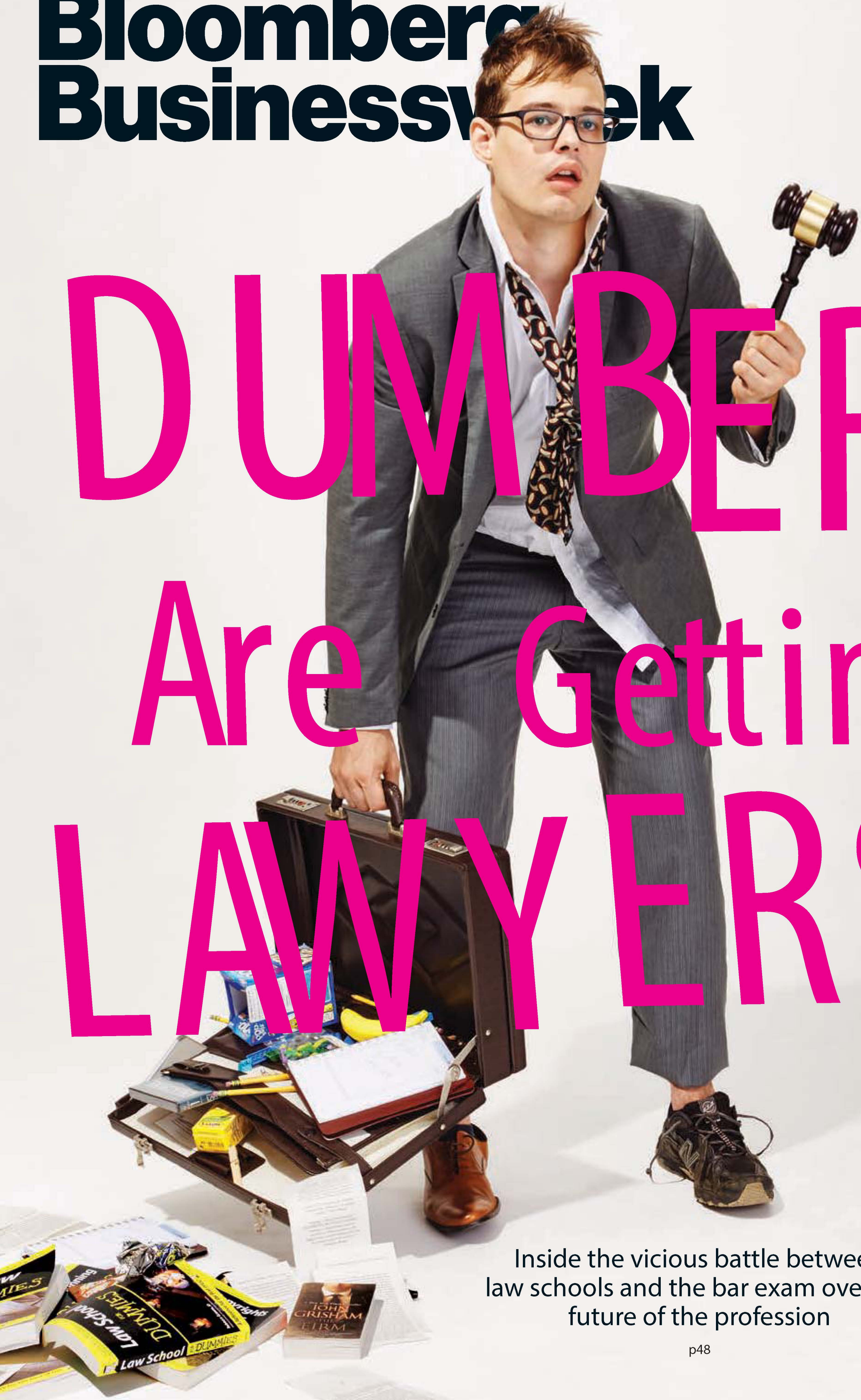
Bloomberg Businessweek



DUMBER Are Getting LAWYERS?

Inside the vicious battle between law schools and the bar exam over the future of the profession

p48

Bloomberg Businessweek

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“When I found out about an animal, I wanted to hold it, and when I held an animal, I wanted to breed it”

PHOTOGRAPH BY ERIVER HIJANO FOR BLOOMBERG BUSINESSWEEK

“They would have you reuse toilet paper if they could”

“There’s a shortage of lawyers in this country the same way that there’s a shortage of Mercedes-Benzes”

“The press was very quick to anoint people... who got something right ‘once in a row’”

Bloomberg Businessweek
August 24 — August 30, 2015

Cover Trail

How the cover gets made

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"Cover story is on lawyers. The woman who runs the bar exam claims that many law schools have lowered their standards, which would explain why so many grads are failing."

"It's about time someone made a lawyer joke. We'll blaze a glorious trail once again."

"Um…sure."

"As a clever metaphor for the sad state of the law profession, we can shoot someone in a suit acting dumb."

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"Dumber."

3
"Dumber."

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"Fifteen percent more dumb—and no banana."

COVER PHOTOGRAPH BY MEREDITH JENKS FOR BLOOMBERG BUSINESSWEEK

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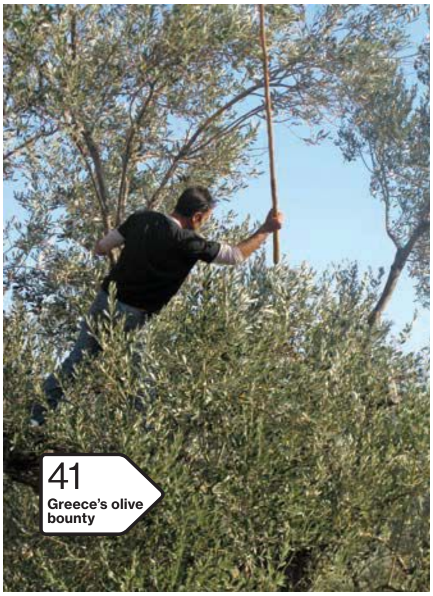

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Corrections & Clarifications
"Asking Everyone's Rich Uncle to Pay for School" (Politics & Policy, August 10-August 23, 2015) incorrectly stated that half of the borrowers of federal Grad Plus loans are in income-sensitive repayment plans, rather than half of outstanding balances. Ⓑ "A Technology That Reveals Your Feelings" (Technology, August 10-August 23, 2015) misspelled the last name of Affectiva's CEO; it's Langeveld, not Langevold.

FOR FLEETS, A NEW KIND OF DASHBOARD

Vehicle telematics are ushering in an era of fuel savings, accident reduction and greater productivity

Fog hinders our sight more than rain, snow or even darkness. But even in clear weather, there's another fog surrounding fleet vehicles. It's an information blackout that results from failure to deploy "vehicle telematics"—a matrix of sensors, instrumentation, wireless communications and GPS navigation utilized by a growing number of fleets. The value of telematics is measured in fuel and payroll savings, accident reduction and greater productivity in the field, with the bonus benefit of helping to reduce carbon emissions.

The fleet management challenge is commonly associated with 18-wheelers, and telematics solution providers do actively address that segment. But there is also a focus on smaller vehicles that don't only haul freight. "The real opportunity now is with fleets that travel intermittently from job to job," says Stuart Kerr, Senior Vice President of Global Enterprise Sales, Fleetmatics. "It's a space with impressive productivity levels, yet it's also vulnerable to small missteps that have a negative effect on efficiency."

Fleetmatics markets a proprietary solution called REVEAL™ that tracks vehicle and driver behavior, providing easy-to-understand business intelligence to improve decision-making. Currently, 625,000 vehicles are monitored, providing billions of data points. "Clients engage us on a broad strategic level," Kerr states. "They will say, 'This is what our vehicles go into the field to do. How can they do it more productively?'" Enterprises require intelligent, automated solutions that deliver accurate metrics and key performance indicators in an actionable way that can change outcomes.

> Enterprises require intelligent solutions that deliver accurate metrics in an actionable way.

One Fleetmatics client had an inventory policy that favored carrying a lean payload, with jobs broken up by returns to the dispatch center. "About 20 minutes were budgeted to get on-site, restock and head back out," explains Kerr, "but the actual time spent was closer to 90 minutes." Using this new intelligence, their finance model was then reevaluated, and they were empowered to make changes based on the reality of their technician's day.

Sensors that log stationary use of a vehicle's engine also give clients the ability to reduce idling. After fixing that profit leak, the next Fleetmatics REVEAL™ value builder is typically fuel card integration, which automatically updates odometer data to provide updates on fuel purchases—including location and capacity—and can even supply carbon footprint information for that vehicle. There is also work order integration, where back-office data is tied directly to GPS location data, providing everyone from dispatchers to decision-makers a more complete view of the field. Compound these results by thousands of vehicles, and the cost savings and environmental impact can be substantial.

Currently, the fleet management industry, represented by NAFA (the National Association of Fleet Administrators) and assisted by the Pasadena, Calif.-based nonprofit CALSTART, is on a clean-transportation mission that will issue accreditation in much the same way as the construction sector utilizes the LEED program. "NAFA brought us in to help develop standards," explains Bill Van Amburg, Senior Vice President of CALSTART. "Together, we've come up with a program that will deliver robust results for fleets and the environment."

Controlling fuel use and reducing engine idling are two key elements of this effort. "Idling of a conventional engine is necessary at stoplights or in traffic, but it can be a huge waste of fuel and money," says Van Amburg. "An 18-wheeler can shut off its big engine at the truck stop and use an auxiliary engine for cabin air and other functions. In smaller vehicles, there is now technology that cuts the engine when it's not needed and turns it back on instantly when power is called for."

At its best, Big Data technology analyzes real-world patterns and gives management teams an opportunity to correct the counterproductive ones. In the world of fleet, small fixes based on telematics scale up to big numbers—once the fog is properly lifted. — *David Gould*

Opening Remarks

Make Trade, Not War

By Nisid Hajari

Partition broke up an enormous economic bloc seven decades ago. Pakistan and India should try to put it back together

1946

1950

If you haven't kept watch on the cold war between India and Pakistan, you haven't missed much. The two countries are locked in a depressingly familiar stasis whose roots trace back to the Aug. 15, 1947, partition of British India. Several weeks of massacres claimed the lives of anywhere from 200,000 to 1 million Hindus, Muslims, and Sikhs, while 14 million more were uprooted from their homes. Rancor and mistrust have lasted seven decades: Tentative moves toward rapprochement are regularly followed by provocations, threats of retaliation, and exchanges of fire along the disputed border in Kashmir.

The pattern has changed little under current leaders Nawaz Sharif in Pakistan and Narendra Modi in India, though their governments are at least giving talks another chance. On Aug. 23-24, the two countries' national security advisers plan to meet in New Delhi to discuss "all issues connected to terrorism," including the Pakistan Army's links to militant groups who've conducted attacks inside India. But if both sides truly want to improve relations, the first item on their agenda should be trade, not terror.

South Asia is one of the world's least integrated regions, with trade among neighbors accounting for only 5 percent of the total. (In Southeast Asia, the figure is 25 percent.) The irony is that before partition these countries formed more or less a single market, knit together not just by commerce but also by a network of British-designed roads, canals, and railroads.

The subcontinent's economies wouldn't necessarily have been better off had they remained united. Under the British, the areas that would become Pakistan and later Bangladesh served mostly as sources of raw material to the rest of India. That changed after 1949, when India devalued its rupee and its Muslim neighbor refused to follow suit. The stronger currency, combined with a commodity boom sparked by the Korean War, allowed Pakistan to accumulate the surpluses needed to industrialize. For three decades, its economy averaged annual growth around 6 percent—nearly

1966

1972

double what socialist India could manage. Once India began to liberalize its economy in 1991, though, the fortunes of the two nations reversed.

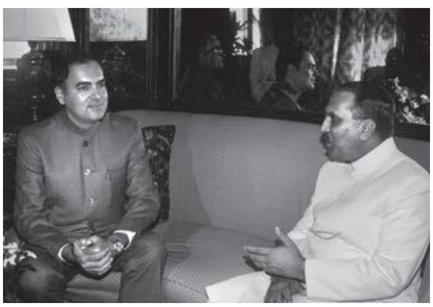
Today, the cost of continued fragmentation is clear. Official bilateral trade between the nuclear-armed rivals totaled less than $3 billion last year—a tenth of its potential, according to the Indian Council for Research on International Economic Relations (ICRIER). And both governments lose out on millions in customs revenue due to a thriving unofficial trade that escapes formal scrutiny.

While some businesses might struggle to compete if the borders were opened, many more would benefit. Technology transfers from India would help make Pakistan's farmers more productive and its factories more competitive. Indian outsourcing firms could tap cheaper Pakistani labor, while Indian pharmaceuticals, auto components, tires, and chemicals could find new customers. Consumers on both sides would enjoy lower prices. The rewards could grow exponentially if both countries were able to smooth out impediments to trade—untangling red tape, improving roads and railways, upgrading

logistics. A study by World Bank researchers estimated that easing such roadblocks could increase Pakistani exports to India more than 200 percent.

For Pakistan, gains from transit could dwarf even those from trade. Historically, the northwestern corner of the subcontinent served as a gateway to Central Asia and the Middle East. If security concerns could be ameliorated and infrastructure improved—two huge ifs—Pakistan could again take its place as a thriving regional hub, linking a rapidly growing India to the resource-rich 'Stans and the Middle East's petro-states. Ijaz Nabi, a former World Bank official and economics professor at the Lahore University of Management Sciences, says containers could eventually travel overland from India to Europe in a week—twice as fast as the sea journey.

Not surprisingly, each side blames the other for the lack of progress. While India granted Pakistan most-favored-nation status in 1996 after both countries joined the World Trade Organization, the latter has yet to reciprocate, despite pledging to do so nearly four years ago. (Although it has greatly reduced the number of Indian items subject to high duties or outright bans.) Pakistani negotiators say India needs to lower so-called nontariff barriers that disadvantage Pakistani producers: everything from stifling licensing and inspection rules to subsidies for Indian farmers. India reasonably (if not quite helpfully) points out that all exporters face the same barriers to entry. In return, New Delhi blames Pakistan's powerful military for sinking a potential deal last year that would have opened up road and rail traffic throughout the subcontinent. Accusations, like opportunities, run at a surplus in this relationship.



1985

1998

While direct transit through Pakistan would be the most efficient means for India to reach countries to the north and west, intractable suspicions are leading both Islamabad and New Delhi to favor other options. Pakistan is working with China on a $46 billion "economic corridor" from the Chinese province of Xinjiang to the Pakistani port of Gwadar. This network, which makes India extremely wary, will include energy and telecommunications projects as well as road, rail, and pipeline infrastructure; it is meant to complement China's ambitious initiative to knit together the Eurasian landmass.

For its part, India is reviving efforts to develop the Iranian port at Chabahar, which promises an alternate means of reaching Afghanistan and Central Asia, not to mention of importing more oil and gas from Iran once sanctions are lifted. On its other border, India is partnering with Bangladesh, Bhutan, and Nepal to allow the free movement of cars and trucks across their borders—effectively moving ahead without Pakistan. Improved connectivity could expand India's access to a Southeast Asian common market with a combined gross domestic product of $2.5 trillion.

All this geopolitical jockeying undermines what should be shared goals for the region: to enhance stability and to shrink the space for Islamic militancy. Rather than trying to circumvent the Pakistan-China corridor, Modi's government would be wise to coordinate its own huge infrastructure plans with Beijing's to take advantage of the new trade routes opening up. Pakistan should shed its own suspicions about Indian intentions, lift remaining trade barriers, and actively pursue closer infrastructure links throughout the region. "What we're blocking is 20 countries potentially getting interconnected," says ICRIER's Nisha Taneja.

Improving the trade climate will demand more than lower tariffs. If businessmen are to create new and vibrant supply chains, they have to be allowed to invest freely across the border, form joint ventures, and send remittances home. They need to be able to obtain visas easily and travel widely. Both countries urgently have to improve their ports, highways, railroads, and border crossings.

Most important, the trade agenda can't be a hostage of security talks. Businesses require stability and predictability if they're going to invest—clear rules and clear means of redress. They can't be expected to make long-term commitments if policies keep changing after every militant attack or artillery exchange in Kashmir.

By contrast, a thriving economic relationship would be a disincentive to taking up arms at the next inevitable crisis. "That would be a very powerful means to conflict resolution," says Taneja. Closer economic ties have shrunk the likelihood of conflict elsewhere in Asia—between China and Taiwan most notably, but also between the mainland and archrival Japan. A panel sponsored by the Pakistan Business Council has estimated that trade volumes in the range of $10 billion to $15 billion annually would create enough of a lobby on both sides of the border to keep relations steady. Even the Pakistan Army, which benefits from ongoing tensions, could look forward to fatter defense budgets if GDP growth picks up. Trade alone won't heal the divide carved out by the 1947 partition. But it's a salve surely worth applying. Ⓑ

Hajari, a member of Bloomberg's editorial board, is the author of Midnight's Furies: The Deadly Legacy of India's Partition.

A thriving economic relationship would be "a very powerful means to conflict resolution"

2004

2013

Even before the 1947 partition, deep personal animosity divided Jawaharlal Nehru, who would lead India, and Muhammad Ali Jinnah, the father of Pakistan. The ensuing decades saw three wars as well as attempts at rapprochement—none of which stuck.

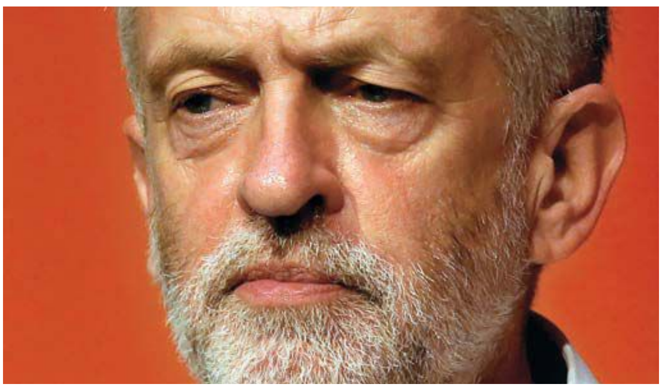
FROM TOP LEFT: ARCHIV PETER RUHE/AKG IMAGES; BETTMANN/CORBIS; TOPFOTO/THE IMAGE WORKS; AP PHOTO; CHARLYN ZLOTNIK/GETTY IMAGES; REUTERS; STAN HONDA/AFP/GETTY IMAGES; JOSHUA LOTT/REUTERS

To read Barry Ritholtz on Google and Noah Feldman on the Iran deal, go to

Bloombergview.com

The Bernie Sanders of The United Kingdom

As it votes for new leadership, Labour considers taking a hard left



DANNY LAWSON/PA/AP PHOTO

Jeremy Corbyn's candidacy is about as improbable as his ideas. He didn't even ask to be on the ballot for leader of the U.K.'s Labour Party, yet he's ahead in the polls. Part of his appeal is his unapologetically old-fashioned economic thinking. Imagine Bernie Sanders winning the Democratic nomination for president of the U.S. Like Sanders, Corbyn is a longtime activist and campaigner, guided by personal hard-left convictions rather than party loyalty or strategic calculation. For both men's supporters, that's the appeal; for their parties, that's the danger.

Labour's been through this before: After losing to Margaret Thatcher's Tories in 1979, it had a long and passionate affair with socialism before putting centrist Tony Blair in charge in 1994. Something similar could happen again. Many of the party's supporters blame their crushing defeat in May on Blair's New Labour legacy and a deficit of vigorous leftism. Many socialist radicals, in any case, would rather lose with honor than win with moderation.

Corbyn is such a throwback that he's even open to revisiting one of Blair's first and most notable triumphs: striking "Clause Four" from the party constitution, which supported "common ownership of the means of production, distribution, and exchange." Apparently Corbyn doesn't regard that issue as closed.

He hasn't yet been too specific about actual policies. Unsurprisingly he favors public investment, the National Health Service, and much more generous welfare spending. When it comes to paying for these priorities, Corbyn says, the big question is "how to get some of the wealthiest individuals and biggest corporations to pay anything like their fair share." So far, he hasn't said what that fair share might be.

His most novel and much-discussed idea is "quantitative easing for people instead of banks"—that is, giving the Bank of England "a new mandate to upgrade our economy to invest in new large-scale housing, energy, transport, and digital projects."

"Quantitative easing for people" is an appealing notion: When QE is necessary to boost demand in the economy, there's a respectable case for linking the central bank's asset purchases to government spending on infrastructure or direct payments to taxpayers. That way, you might get more bang for the buck.

But QE is for emergencies. No serious analyst ever envisaged it as business as usual. Now that the Bank of England aims to normalize monetary policy, QE's moment has passed. The case for conventionally financed, fiscally responsible public investment remains strong—and has nothing to do with quantitative easing.

For now, this isn't just about policy. Corbyn, like Sanders, speaks to the disenchantment with the insincerity of ordinary politics. Many voters want a change from that. Whether they'll want the policies Corbyn will have to spell out, supposing he wins, is questionable. In 1983 a member of the Labour Party called its election program "the longest suicide note in history." That's something for Corbyn and his supporters to think about.

Fear and Trembling Over Fed Rate Hikes

The opaque and fragmented bond market is at the heart of the anxiety

The U.S. Federal Reserve will raise interest rates, maybe next month, for the first time in almost a decade. How the bond market will react—an entire generation of traders was in grade school the last time rates went up—has a lot of people worried.

About that anxiety: Banks claim that postcrash regulation has forced them to hold fewer bonds. Inventories of corporate bonds are at an all-time low. The result, banks say, is the bond market will be neither liquid nor stable. Others claim that predictions of a crisis are a ploy by the banks to loosen regulations. Shrunken inventories, they say, are the result of banks being less interested in the market because it's now less profitable.

You don't need to take sides in the debate to see the need to reassure investors about bond-market liquidity.

One reason anxiety is so high is that markets have hit inexplicable air pockets. On Oct. 15, for example, prices on 10-year Treasury notes took a 0.37 percent swing. Changes of that magnitude have occurred only three times since 1998. Panicky investors yanked $68 billion out of bond funds. After a 10-month investigation by U.S. regulatory agencies, the cause remains a mystery.

A possible explanation is algorithmic trading, which is too fast for humans to track—more than half of the trading in Treasuries is done this way. Regulators should explore whether trading can be paused, but circuit breakers are hard to impose because, unlike stocks, most bonds don't trade on regulated exchanges.

Fragmentation is another issue. General Electric has more than 900 outstanding bonds, each with a different maturity, yield, and price. JPMorgan Chase has about 1,700. Six U.S. agencies oversee different aspects of the Treasury market. Many participants aren't required to register with regulators at all.

A more transparent market is needed. After October, some regulators were surprised to learn they have no visibility into more than 40 percent of dealer-to-customer transactions.

Whenever the Fed decides to raise rates, the bond market could stand some refinement. Investors, who hold $40 trillion in bonds, will stand to benefit, whatever their level of anxiety. Ⓑ

August 24 — August 30, 2015

To Eclipse the U.S., China Needs to Stop Fighting Itself

▶ China's leaders are loving—and hating—reform

▶ "They just devalued, and you are left guessing"

With the yuan floating who knows where and China's markets looking for a bottom, investors, analysts, and economists worry the country is headed into a time of volatile swings in public policy.

To supplant the U.S. as the No.1 world economy, China has to overhaul its own. Yet its rulers are caught between the desire for far-reaching reforms and a deeply ingrained instinct to shelve them when things go wrong. So the yuan's recent surprise devaluation gave China's exports an edge–even though President Xi Jinping and his advisers have stated their desire to make consumption, not exports, the main engine of the economy. And the government intervened to stem the slide in stocks–while financial reforms were meant to build a stock exchange that responds to market forces. "The leadership is so paralyzed and preoccupied by even a modest downturn that it reacts with the same old fiscal tools of investment and pump-priming," says David Shambaugh, director of George Washington University's China Policy Program.

Finance Minister Lou Jiwei in 2014 cracked down on off-balance-sheet borrowing by local governments and ordered them to issue bonds instead. The thinking was that selling bonds to public investors would boost the transparency of local government finances and reduce spending on boondoggle projects. That plan was put on hold as growth sputtered. Regulators reversed themselves by relaxing the curbs on off-balance-sheet financing to keep credit flowing to towns and provinces–so they can create more jobs by starting more infrastructure and real estate projects.

Xi and his economic planners are simultaneously trying to rebalance the $10 trillion economy toward consumer-led growth, liberalize China's capital markets, and stabilize stocks, which dropped an additional 6.5 percent on Aug. 18. The scale of these problems, along with an economic deceleration from double-digit

JASON LEE/REUTERS

growth to about 7 percent or lower, has raised questions about whether Xi's government can meet its economic goals. "There are so many balls in the air, and one of them is going to fall," says Jian Chang, chief China economist at Barclays. "It is just impossible to achieve so many potentially conflicting objectives at the same time."

As Chinese stocks gained 150 percent from July 2014 through June 12, state-controlled media urged individual investors to buy. The stock market boom was supposed to offer companies in search of capital an alternative source to debt, and that worked until shares started to tumble. When the bubble burst, the government had to rescue investors.

An active civil service would help in these emergencies by monitoring the markets and watching for excesses in local debt. Yet the anticorruption campaign is also hindering reform efforts. A wave of arrests has made officials nervous about sticking their necks out. At the same time, civil servants whose perks have been trimmed have little motivation to undertake measures mapped out by the leadership. Premier Li Keqiang in his annual work report vowed to expose bureaucrats who "are lazy and lacking in action." Says Willy Lam, an adjunct professor at the Chinese University of Hong Kong: "Bureaucrats are reluctant to execute the government's directives. Resistance is mostly a reaction against the loss of income, perks, and prerogatives officials used to have."

The surprise move to depreciate the yuan triggered a 2.85 percent drop, the currency's biggest in two decades, and caught most investors and economists off guard. The absence of a clear explanation left the market guessing whether the move was a well-considered step on the road to fully freeing up the currency or a desperate effort to prop up exports. The Aug. 13 comment of People's Bank of China Deputy Governor Yi Gang–"Trust the market, respect the market, fear the market, and follow the market"–added little clarity.

The Chinese government, as a rule, doesn't show its cards to the financial markets. Major economic policymakers elsewhere typically either signal big policy changes well in advance or explain once a decision is made. The U.S. Federal Reserve has consistently kept investors informed since it unleashed quantitative easing, says Patrick Chovanec, chief strategist at Silvercrest Asset Management Group in New York. "There was no such thing in China. They just devalued, and you are left guessing at what it is they are trying to accomplish," he says.

Allowing the yuan to rise and fall more freely is part of China's plan to win its currency the same prestige as the U.S. dollar. Critics of China in the U.S. and elsewhere have long been calling for the end of fixed exchange rates for the yuan. Yet timing the move to free the yuan up just days after an alarming 8.3 percent decline in exports for July showed a certain tone-deafness to some and fueled views that China keeps its exchange rate weak to help exporters.

Analysts say Xi has failed to make much progress on an ambitious list of promised changes unveiled in 2013. They include shifting the emphasis to services over manufacturing, dismantling state-owned enterprises, and curbing loose spending by local governments. He is reviving the ancient Silk Road trading route to Europe, with plans to build transport and other infrastructure.

6.5%

The drop in Chinese stocks on Aug. 18

Making those things happen, while also running a country of 1.36 billion people, has been complicated by Xi's top-down management style. Since taking over in March 2013, Xi has centralized power, taking a leading role in eight high-level policymaking committees in areas including military reform and cybersecurity.

He controls short-term financial policies and broader economic planning via two "leading groups." One is a reform panel of his own creation, and the other is a financial and economic affairs committee customarily led by China's premier. Xi's predecessor, Hu Jintao, left the handling of China's economic affairs to his premier, Wen Jiabao, who chaired the financial and economic affairs committee.

"There has been an overconcentration of power at the very top," says Lam, whose book *Chinese Politics in the Era of Xi Jinping* was released in April in London and New York. "Nobody wants to take responsibility for anything unless they get a clear-cut directive from Xi Jinping himself."
—Enda Curran and David Tweed

The bottom line The Chinese government is struggling to adhere to its stated plans for economic reform.

Households

Millennials' Biggest Problem? Day Care

▶ **As the birthrate rises, a scarcity of child care weighs on young parents**

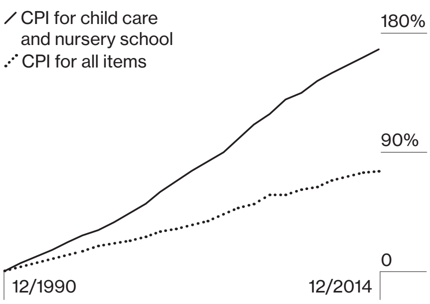
▶ **"It's taking up more and more of a family's paycheck"**

Judging by his academic credentials, you'd think Matthew Hoffmann would be able to afford child care for his 18-month-old son. The 35-year-old has a bachelor's degree from the University of Wisconsin at Madison and earned his Ph.D. in sociology from Loyola University in Chicago, where he works as an adjunct professor. As a contract employee, he's paid only $20,000 a year. "I would need about $60,000 to $65,000 per year to make it worthwhile for us to afford child care," says Hoffmann, who estimates full-time care would cost $1,200 a month. Instead, he and his wife, who works for a nonprofit, rely on free child care from her 70-year-old aunt, who commutes 45 minutes each way to care for her great-nephew. "It's just not a sustainable option," Hoffmann says. "We need a backup plan, too. If she gets sick, we have to call in family from out of state."

Although they're often thought of as overgrown adolescents, some of the oldest members of the millennial generation, born in the early 1980s, are entering their prime child-bearing years. As they do, they're encountering a child-care industry that isn't ready for them. Despite the improving job market and rising birthrates, child-care businesses have been slow to expand since the ▶

Child-Care Costs Outpace Inflation

Change in consumer price indexes since Dec. 1990



DATA: BUREAU OF LABOR STATISTICS

◀ recession ended, hiring workers at less than half the pace of the overall economy. This has led to a classic supply-demand mismatch, where rising demand and a scarce supply are driving up costs faster than overall inflation and making child care a bigger burden for young parents.

The costs of child care and nursery school rose at a 4.3 percent annual pace in June, compared with 0.1 percent for all consumer prices. Married couples who enrolled an infant at a child-care center last year spent from 7 percent to 15 percent of their total income on full-time care, according to data from Child Care Aware of America, which provides information on finding child care for young parents. Sluggish wage gains have made those child-care bills look even bigger. "It's taking up more and more of a family's paycheck, because their paychecks haven't been growing," says Anna Carter, president of Childcare Services Association.

As more of the 75 million millennials have children, child-care costs are likely to keep rising. This threatens to put a lid on the kind of consumer spending that makes up almost 70 percent of the U.S. economy. It may also limit labor force participation as young parents choose to stay home with their children rather than scraping by to afford day care.

There's evidence this is already happening. In 1999, 23 percent of mothers with kids younger than 18 didn't work outside the home, according to U.S. Census Bureau figures compiled by the Pew Research Center. That figure rose to 29 percent by 2012. The number of stay-at-home fathers almost doubled over the same period, to 2 million in 2012 from about 1.25 million in 1999, the data show.

One way to fix the problem is for child-care businesses to expand faster, but that's difficult considering how little the industry pays. Median pay for child-care workers was $19,510 a year in 2012, barely half the median for all workers, say the latest data from the Bureau of Labor Statistics. That's less than what janitors and meat slaughterers made that year. Child-care workers are increasingly expected to be better educated and have more training, making it harder for day-care centers to find enough qualified workers.

All this has led to a "broken market," says Marcy Whitebook, director and founder of the Center for the Study of Child Care Employment at the University of California at Berkeley. "We now have sort of 21st century expectations, and we still have, in some ways, a 20th century system," where "everybody's doing everything on a shoestring," she says. "It's probably a safer bet to open up a restaurant than a child-care center."

Child-care center managers also point to state subsidies that were axed during the downturn and haven't returned. In Illinois, where parents spend an average of 16 percent of their income on full-time care, subsidies for child care were among the first cuts made as state legislators wrangled over a budget for the year that started July 1.

Some young parents are opting for informal arrangements, sending their children to unlicensed day-care centers that charge less or tapping into the army of retiring baby boomer grandparents. Child care by relatives made up about 27 percent of all care given in 2011, up from 21 percent in 1990, according to Census Bureau data analyzed by Chris Herbst, an associate professor at the Arizona State University School of Public Affairs.

40

States where the cost of full-time infant care is now at least 10 percent of the median family income

"There's nowhere else to go than to our parents," says Dana Ramsey, chief operating officer of **Childcare Network,** which operates more than 200 centers in 11 states. Staying at home or relying on relatives isn't always an option for parents. "We basically had to remake our entire budget around day care," says Amber Sparks, 37, whose 3-month-old daughter started at a day-care center on Aug. 1 when Sparks returned to her job at a labor union in Washington, D.C. The center charges more than $2,100 a month, much more than what she and her husband had expected. Says Sparks: "I don't think there's any way we'd be able to afford a home, and pay for day care, and pay for student loans." —*Michelle Jamrisko, with Erin Roman*

The bottom line Child-care and nursery costs rose 4.3 percent annually in June, putting a strain on young parents' incomes.

Small Business

A Breakout Year for Cuban Entrepreneurs

▶ **Startups multiply as the economy opens more to private business**

▶ **"The aim is not to build capitalism… the idea is to preserve socialism"**

Yovanni Cantillo started Ya, Cuba's first fast-food drive-through, last year. Every six weeks since, he travels overseas to haul back suitcases full of soda cups with lids, thick straws for milkshakes, and small plastic cups for ketchup—items Cuba's state-owned stores don't carry.

Julio Alvarez and Nidialys Acosta opened a garage to restore classic cars, but finding scrap metal, auto body paint, and the gas for welding is so hard that customers often bring their own parts and materials.

With no such thing as a bank loan to finance their restaurant, Rafael Muñoz and Sasha Ramos persuaded Muñoz's mother to trade her house for an abandoned cooking oil factory, and Ramos's mother and father-in-law to invest. The partners brought blenders, sinks, hand dryers, and light fixtures from Miami and Panama. Artisans copied furniture from Italian design magazines using rebar, fiberglass, and other discarded materials.

Cuba's private sector may seem awkwardly DIY, but it's the fastest-growing part of an otherwise moribund economy, fueling almost 10 percent of gross domestic product. President Raúl Castro says private business is part of Cuba's new economic model. He has expanded

LISETTE POOLE/BLOOMBERG. DATA: CHILD CARE AWARE OF AMERICA

private employment to 201 occupations, including barber, taxi driver, and cell phone technician. Real estate agents are now legal, a radical concept in a nation that didn't permit home sales for more than a half-century. In the past few years, almost 500,000 Cubans have registered as tax-paying private businesspeople, but economists figure the actual number is closer to 2 million–40 percent of the workforce–including state workers and farmers who moonlight in the private sector.

Entrepreneurs must overcome obstacles unheard of in the U.S. Supplies and materials sold only at state-owned stores and warehouses are limited. Items unavailable in Cuba must be couriered in. There's no wholesale market or private distribution network. When Rafael Rosales, who runs Café Madrigal, Havana's first privately owned bar since the revolution, needed cocktail glasses, he spent a day combing state stores and didn't find any. He's still an optimist: "Our economy has improved a lot in the last three years. You see people fixing up their houses, dressing better."

The government classifies these businesspeople as *cuentapropistas*, or self-employed, but the most successful create jobs as well. Ernesto Blanco started La Fontana, a restaurant with a grill and 12 chairs on his friend's patio. He now employs 29 workers and grosses thousands of dollars a month, paying 10 percent to the state in taxes.

With scant programming on television, four friends started a business that enlists people with broadband Internet connections at their workplace to download sports, soap operas, and other shows onto hard drives. Those packages are copied and sold for \$2 to \$5 through an elaborate unofficial distribution network. It's all unauthorized, but the government tolerates the venture, which provides income to thousands and has exposed Cuba to foreign entertainment.

There's a tug of war in Cuba over reforms. "This is a struggle between old forces and new forces in a country that nationalized everything, even hot-dog stands," says Carlos Alzugaray, a former ambassador to the European Union and a University of Havana professor. "The genie's out of the bottle now. If the government cannot create well-paid jobs, then let the private sector do it." Yet Hugo Pons, of Cuba's National Economics and Accounting Association, cautions that "the aim is not to build capitalism or a market economy; the idea is to preserve socialism."

Even many Cuban entrepreneurs say they don't want a total market economy. They credit their government with providing health care, education, and public safety at levels far above most of Latin America. "You could study economics in any part of the world and not be able to apply it here," says Ramos, co-owner of his factory-turned-restaurant, now one of Havana's most glamorous. The "original vision" of Cuban socialism is gone, he says, but what remains is "a model trying to preserve itself without abandoning its original principles, at the same time conscious that if it doesn't advance and evolve, it will die."
—*Indira A.R. Lakshmanan*

Acosta and her husband restore classic cars with limited resources

The bottom line Although 201 categories of work are now open to entrepreneurs in Cuba, the state still dominates the economy.

Austerity

Putin Decides the Kremlin Must Suffer, Too

- Trimming privileged jobs while an expensive watch causes a scandal
- It's "an important signal at the beginning of an election campaign"

As he gears up for a parliamentary vote a year from now, Vladimir Putin has a chance to show the electorate that even his own entourage is feeling the pain of recession. As part of spending curbs on the bureaucracy, Russia's president has agreed to cuts in the Kremlin's budget by as much as 10 percent, people with knowledge of the plan said.

The moves were decided before a public uproar over an expensive watch that Putin's spokesman, Dmitry Peskov, flashed at his July wedding. The first deputy chief of staff of the presidential executive office, Vyacheslav Volodin, has also faced criticism for his property holdings. This popular displeasure reveals an underlying irritation with the lifestyles of cosseted officials. A bureaucrat's half-million-dollar watch is "an important signal at the beginning of an election campaign," says Nikolay Petrov, a researcher at the Russian Academy of Sciences in Moscow.

Peskov says the watch was a gift from his bride, 2006 Olympic ice-dancing champion Tatiana Navka. He declined to comment on the Kremlin's budget. The Ministry of Finance didn't respond to requests for comment.

Those who work inside the Kremlin have the most prestigious, lucrative, and secure jobs in the public service. "People know that officials live much better than most Russians," says Igor Bunin, the director of the Center for Political Technologies in Moscow. "They have a whole system of bonuses and privileges, including apartments." ▶

◀ Since Putin came to power 15 years ago, the number of federal bureaucrats has jumped to 1.4 million, from 521,000, government data show. The Finance Ministry says the Russian government has a bloated budget. In July, Putin signed a decree ordering the Ministry of Interior Affairs, which has its own paramilitary force and oversees the police, to cut personnel by 10 percent, to no more than 1 million.

In an earlier round in late February the federal government, the Kremlin included, cut costs by 10 percent as well; Putin took a pay cut. Exactly how many Kremlin jobs will be lost this time hasn't been decided, two people familiar with the matter say. Some of the savings may come from reduced wages and benefits, not outright layoffs.

That Kremlin workers are facing a second round of purse tightening exposes the shakiness of the leadership's assurances that the worst is over. Gross domestic product fell 4.6 percent in the second quarter from a year earlier, the largest drop since 2009. The contraction may accelerate to 6.3 percent in the July-September quarter, estimates Capital Economics in London, as low oil prices and sanctions over the conflict in Ukraine continue to batter the economy.

The austerity measures are a far cry from the excess that's characterized most of Putin's time in power. He more than doubled his own official salary, to 7.6 million rubles ($114,000) last year, as the nation celebrated the annexation of Crimea. The administration's 1,715 staffers make an average of almost 3 million rubles a year, seven times the national average, according to the state statistics service. Peskov, Putin's spokesman, declared 9.1 million rubles of income last year, more than his boss.

Given the inefficiencies of government in Russia, it's hard to say if there are too many officials or not, says Andrey Klimenko, director of the Institute for Public Administration at the Higher School of Economics in Moscow. "In Russia, the state intervenes in everything," he says. "That's why we have such a huge number of bureaucrats."

—*Ilya Arkhipov and Evgenia Pismennaya*

The bottom line With elections a year away and the recession biting, Putin is cutting back on Russia's 1.4 million federal bureaucrats.

Edited by Christopher Power and Matthew Philips
Bloomberg.com

Total value of eggs produced in 2014

$10.2b

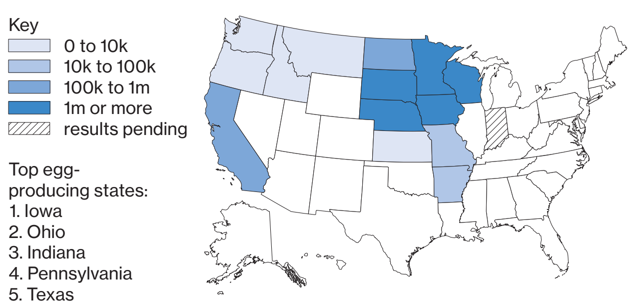
Commodities Sick Chicks

This spring, the worst-ever case of bird flu hit the upper Midwest, wiping out about 11 percent of America's egg-laying chickens. While farmers try to replenish their flocks, a nationwide egg shortage has driven prices to record highs and disrupted much of the food industry.

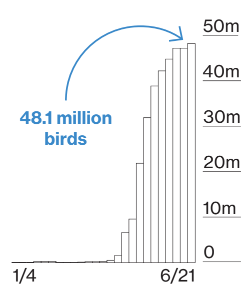
Affected birds

48,091,293

Number of affected birds by state



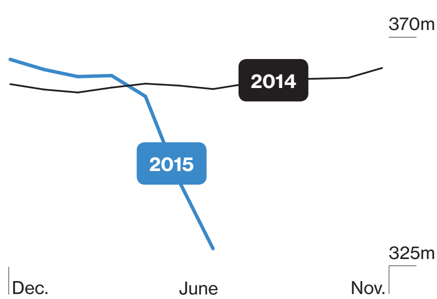
Cumulative total by week, 2015



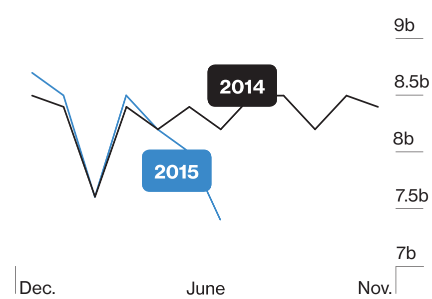
Toll on egg supply

32m of the birds affected were listed as "layer chickens," meaning they produced eggs

Average U.S. layers by month



Total U.S. egg production by month



Global Eggonomics

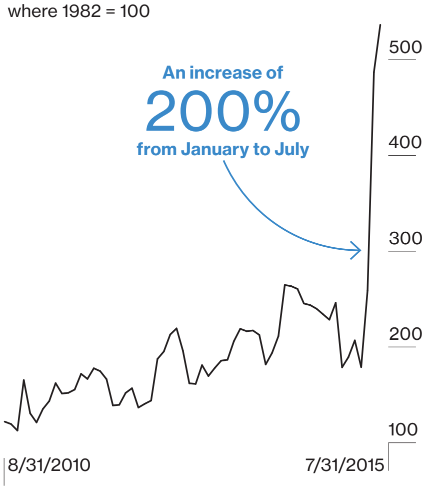
Prices soar

From May to June, egg prices shot up almost 31 percent, the biggest month-to-month increase since at least 1980. As of July, a dozen Grade A eggs cost an average of $2.57, an all-time high. Rising costs have also affected the processed-egg market.

The disease mostly affected flocks at large industrial farms. Some cage-free eggs are now cheaper than regular ones.

U.S. producer price index of processed, liquid, dried, or frozen eggs

Index of the average selling price received by U.S. producers, where 1982 = 100



Of the 242 million cases of eggs (360 large eggs per case) left in their shells produced in 2014,

54.9% went to retail stores,

31.5% were further processed,

9% went to food-service companies, and

4.7% were exported.

> "The restaurateur that is buying a few cases of liquid eggs and pouring it into the skillets, he'll have to buy more fresh eggs and crack them by hand."
> —*Tom Ditto, vice president for food service at Challenge Dairy*

Processed egg products

Refrigerated/frozen egg
Egg whites
Egg yolks
Enzyme-modified
  Whole eggs
  Egg yolks
Extended-shelf-life
  Whole eggs
  Whites
  Yolks
High-gel egg whites
High-whip egg whites
Salted
  Egg whites
  Egg yolks
  Whole eggs
Scrambled egg mix
Sugared
  Egg yolks
  Whole eggs
Whole eggs
Whole eggs and yolks with corn syrup
Whole eggs with citric acid
Whole eggs with yolk added
Cage-free egg products
Kosher egg products
Organic egg products

Liquid/frozen whole eggs
Whole eggs
Whole eggs and yolks with corn syrup
Whole eggs
  with citric acid
  with corn syrup
  with salt
  with sugar
  with yolk added
Extended-shelf-life whole eggs

Citric acid keeps egg products from turning green.

Refrigerated liquid/frozen egg white
Egg white
Salted egg white
Extended-shelf-life egg white
High-gel egg white
High-whip egg white

Dried egg
Blends of whole egg and/or yolk with carbohydrates*
Dried egg mix
Egg yolk solids
Enzyme-modified egg yolk solids
Enzyme-modified whole egg solids
Free-flowing
  Egg yolk solids
  Whole egg solids
High-gel egg white solids
High-whip egg white solids
Instant egg white solids
Pan-dried albumen
Scrambled egg mix
Spray-dried egg white solids
Stabilized**
  Egg yolk solids
  Whole egg solids
Whole egg solids
Cage-free egg products
Kosher egg products
Organic egg products

Dried whole egg
Blends of whole egg and/or yolk with carbohydrates*
Enzyme-modified whole egg solids
Free-flowing whole egg solids (with free-flow agent added)
Stabilized** whole egg solids
Whole egg solids

Dried egg white
High-whip egg white solids
Instant egg white solids
Pan-dried albumen
High-gel egg white

Dried yolk
Egg yolk solids
Enzyme-modified egg yolk solids
Free-flowing egg yolk solids (with free-flow agent added)

Value-added convenience products
Cooked scrambled eggs
Cooked scrambled eggs with added whites
Cook-in-bag scrambled eggs
Crepes
Deviled eggs
Egg patties
Filled omelets
Fried eggs
Hard-cooked egg rolls
Hard-cooked
  Chopped eggs
  Whole eggs, pickled
  Whole eggs, peeled
  Whole eggs, unpeeled
Heat and serve
  Blintzes
  French toast
  Pancakes
  Quiche
  Waffles
Plain omelets
Quiche mix
Scrambled egg mix

*sugar or corn syrup
**glucose-free

Iowa, the top U.S. egg producer, was hardest hit. Most of the hens that died supplied the egg processing industry: Experts estimate **30%** of the birds in the country's liquid-egg sector died.

Fallout

When a shortage of processed eggs hit in May and June, industrial users had to scramble to find alternate supplies and alter their business plans. Some saw their margins squeezed; others had to tweak or stop making egg-dependent products.

Bakers
Egg suppliers to the country's largest bakeries declared **force majeure** and suspended deliveries.

A term used when breaking a contract under extraordinary circumstances

Food producers
Cereal maker **Post**, which owns egg processor Michael Foods, said that **25%** of its egg volume was affected and that the flu outbreak will cost it **$20m** this year. In May, Post said it would have to jump into the spot market to buy 165 million pounds of commercial eggs at higher prices.

Custard makers
Galloway, the biggest producer of fresh frozen custard mix in the U.S., has seen egg costs rise **300%**. In July, **Rita's** began to replace its own custard with ice cream across its **600** stores. **Shake Shack** blames expensive eggs for its rising custard costs.

Restaurants
Food chain **Panda Express** has swapped corn for eggs in its fried rice dishes. **Denny's** raised omelet prices and started marketing burgers. **Red Robin** pulled hard-boiled eggs from its salads and replaced them with cucumbers.

Winners
▷Starting June 1, the U.S. began importing egg products from the **Netherlands.**
▷Egg-substitute maker **Hampton Creek** shipped powdered-egg substitute to General Mills.
▷Flocks owned by Mississippi-based egg producer **Cal-Maine Foods** were unscathed by the flu; the company's stock jumped 60 percent from April to May.

Looking ahead

500 sites where the U.S. Department of Agriculture will test for new cases of bird flu this fall. The agency is stockpiling vaccine.

DATA: USDA; BLS; AMERICAN EGG BOARD; UNITED EGG PRODUCERS; REMBRANDT FOODS

Things Are About to Get Ugly at Kraft

▶ **Warren Buffett and 3G Capital may put the food giant on a crash diet**

▶ **"They'll do the best they can, but mostly they'll cut costs"**

For decades, Kraft and other food behemoths offered convenience, comfort, and the promise of a modern lifestyle. But the compound annual growth rate of the packaged food industry in North America has been less than 1 percent for almost 10 years, with Big Food losing market share to smaller, healthier brands. Venerable Kraft Foods—whose Singles are a "processed cheese product," and whose Cool Whip didn't contain milk or cream until five years ago—has lost revenue for the past three years. "Now these big food brands are old-fashioned," says Bob Goldin, chief executive officer at researcher Technomic. "Consumers don't see them as relevant."

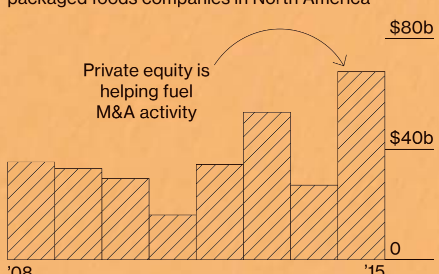
But investors, well, that's a different matter. Warren Buffett—who drinks Coke at breakfast and says he eats like a 6-year-old—teamed up with **3G Capital**, the private equity firm founded by some of Brazil's wealthiest men and known for its penny-pinching ways at **Anheuser-Busch InBev** and **Burger King**, to buy ketchup maker Heinz in 2013. In July, Heinz closed on its purchase of Kraft, with Buffett's **Berkshire Hathaway** and 3G owning a 51 percent stake. **Kraft Heinz** instantly became the third-largest food company in North America, with global sales of $29 billion last year. The good news is it's composed of big, profitable brands. The bad: They have little potential to grow. "What can they do with these brands?" says Bloomberg Intelligence analyst Kenneth Shea. "They'll do the best they can, but mostly they'll cut costs."

While 3G executives haven't said much about their plans—the firm said its managers were unavailable to comment for this story—they've made one big promise: They'll cut $1.5 billion in annual costs from Kraft Heinz before 2018. The company will lose employees, whole levels of management, and maybe a few brands, too. That should help increase the profit margin and eventually boost the stock, making Buffett, 3G, and other investors richer. And it's scaring the stuffing out of rival food companies concerned that if they don't become more efficient, 3G and Buffett might do it for them.

Kraft was the product of two decades of dealmaking. Philip Morris International bought General Foods in 1985 and succeeded in a hostile takeover of Kraft in 1988. The conglomerate, which called itself Kraft, bought Nabisco in 2000. Kraft's size worked to its advantage. "For many, many years the food sector was unassailable. Shelf space in stores was limited; advertising was expensive. Little brands didn't stand a chance," says Alexia Howard, an analyst at Sanford C. Bernstein. "The industry was protected for so long it didn't have to worry so much about costs."

An Appetite for Deals

Value of announced and completed deals involving packaged foods companies in North America



2015 FIGURES THROUGH AUG. 18
DATA: COMPILED BY BLOOMBERG

Then all sorts of chains, and **Amazon.com**, began to sell groceries, some even offering their own brands. Social media and word of mouth started replacing advertising. And more shoppers have been seeking foods that are fresh, free from artificial ingredients, and have a transparent supply chain.

In 2012, Kraft split in two: The snack food and candy brands, which had a bigger presence outside the U.S. and were expected to have higher growth, became **Mondelēz International**. Everything else—including seven billion-dollar brands such as Oscar Mayer and Velveeta—stayed with Kraft.

The stripped-down company tried to adapt. "It's clear that our world has changed and our consumers have changed, and our company has not changed enough," John Cahill, Kraft's then-CEO, said in February 2015, two months after his appointment. Kraft soon promised to remove artificial ingredients from its iconic Macaroni & Cheese. But changing consumers' perceptions of brands that have been around so long is hard, says Billy Roberts, a food analyst at researcher Mintel Group. "Removing artificial ingredients is one thing," he says. "Making it real food is something very different."

Cahill also talked about making Kraft more efficient and said he'd provide details in a few months. But he never got the chance, because Buffett decided to join forces with 3G, who would look deeper and move faster. Says Technomic's Goldin about the private equity firm: "They would have you ▶

2.5k
Job cuts announced in August, including a third of workers at Kraft headquarters

PHOTOGRAPHY BY 731

◀ reuse toilet paper if they could."

Buffett had seen that cost-cutting prowess firsthand since he and 3G acquired Heinz in 2013. He turned over management of the company to 3G, which set a goal of raising the adjusted profit margin from 18 percent to about 30 percent. Two years later, it's already 27 percent, according to Heinz.

A McKinsey report about 3G produced in February 2015 says the firm acquires companies with marquee brands that need operational improvement. Then it "purges existing culture and management team" and employs zero-base budgeting, which requires every department to justify every expense annually. It squeezes suppliers and grows by buying more companies, not necessarily by building ones it owns. The report says that "while 3G has created tremendous operational value, its model may present long-term risks" to its brands.

At Heinz, about 90 percent of the senior executive team left within weeks of 3G taking over. In all, 3G cut more than 7,000 jobs—20 percent of the workforce—and closed five factories. Sales at Heinz dropped 5.1 percent from 2012 to 2014. According to McKinsey, Heinz has lost market share in 65 percent of its product categories. But adjusted earnings, which matter to financial investors like 3G and Buffett, rose 37.7 percent. 3G has been spending, too: Heinz ran its first Super Bowl ad in decades in 2014, and this spring it introduced an all-natural yellow mustard in grocery stores.

3G's sharp-penciled approach has put the food industry on edge. **Nestlé** Chairman Peter Brabeck-Letmathe said earlier this year that Buffett and 3G have "pulverized the food industry market, particularly in America, with serial acquisitions." He also said that 3G's "ruthless cost-cutting" to improve profit margins has had a "revolutionary impact" on other food companies. Mondelēz, as well as **Kellogg** and **Campbell Soup**, have adopted versions of zero-base budgeting. When Buffett was questioned at his own shareholder meeting in May about 3G's tactics, he said, "Efficiency is required over time in capitalism. ... I really tip my hat to what the 3G people have done."

Bernardo Hees, the former chief of Heinz who replaced Cahill as CEO of Kraft Heinz, announced in July that Kraft will move its headquarters from a sprawling 700,000-square-foot complex in a suburb of Chicago to a 170,000-square-foot office downtown. He and Chief Financial Officer Paulo Basilio sent out a memo about cost-cutting. Employees were told to print double-sided. Travel was restricted; conferences were put on hold. Refrigerators crammed with free Kraft snacks were removed the next day. Seven Kraft executives left after the merger in July. In August, Kraft Heinz said it was cutting 2,500 jobs, including more than a third of the workers at Kraft's headquarters.

Kraft Heinz "is focused on growing our business profitably and sustainably," company spokesman Michael Mullen said in an e-mail. He said it will emphasize fewer, bigger, and better innovations. 3G also expects to expand globally. But that could be difficult, Goldin says, since "they gave the brands with international cachet to Mondelēz." That company also has international licenses to many brands that Kraft kept. "3G doesn't care about growing sales," says Edward Jones analyst Brian Yarbrough. "It's about cost-cutting." —*Susan Berfield, with Noah Buhayar*

The bottom line Kraft Heinz, with $29 billion in global sales, is the third-largest food company in North America. Now 3G will slash its costs.

Autos

The Plum China Posting That's Turned Sour

▶ Citroën's Scheunert arrives just as the market is taking a big fall

▶ "I have to admit that I had no idea what was coming"

When Sabine Scheunert was offered the job in March to lead French carmaker Citroën's operations in China, she didn't take long to accept. Little wonder: China surpassed the U.S. in 2009 to become the world's biggest market for vehicle sales, bolstering the careers of many executives who once ran units there, including Takahiro Hachigo, now president of **Honda Motor**, and Joseph Hinrichs, **Ford Motor**'s executive vice president and president for the Americas.

But two months later, after Scheunert relocated from Paris to Shanghai, she was welcomed by a 10,500-vehicle drop in first-half sales—Citroën's first decline for the period in three years. The lightning downturn in the mainland's car market had begun.

Things have gotten worse. China's auto manufacturers group slashed its growth forecast in July and reported that consumers bought the fewest passenger vehicles in 17 months. Car dealerships are offering record discounts to boost sales, but consumers aren't biting because prices continue to slide. "I have to admit that I had no idea what was coming," Scheunert says. "I was aware that somehow the market changed, but that it's going to change so dramatically and so quickly, no one told me."

Where once foreign auto executives' big complaint in China was insufficient

supply, carmakers are building so many factories that industry researcher LMC Automotive estimates production will exceed sales by the widest level in at least eight years, resulting in lower profit margins and prolonged pain. Executives used to local investors lining up to become distributors are struggling to find new dealers even as they hand out financial aid to keep their existing ones in the fold.

China will test the skills of Scheunert, who was in charge of building customer loyalty for parent **PSA Peugeot Citroën**'s brands before taking the China post. Prior to joining Peugeot in 2010, she spent 12 years at **BMW** in various sales and marketing roles in Europe.

For starters, she has to sell five locally produced models, four of which are sedans in a market where sedans have become the worst performing category. That's because mainland consumers favor sport-utility vehicles—especially budget models introduced by domestic automakers.

"They need to have products that are better suited to the Chinese market," says Georges Dieng, a Paris-based analyst at Natixis Securities. "A lot of their products are sedans, with only one SUV. It would be obvious that it would be hard to keep their target for the full year."

To boost sales, Scheunert is working on plans to promote Citroën vehicle features that aren't available in other similarly priced brands, such as a large console display screen and more fabric and styling choices for the interior. The company also will hold test drives and technology days in coming months to raise visibility for the brand.

Scheunert says she analyzes sales data to fine-tune marketing and determine which models to emphasize in different regions to better match consumer tastes. To more effectively understand the market, she travels every week, either to the company's Wuhan production base in central China or to some of Citroën's more than 450 dealers across the country.

Scheunert's target for 2015 is to sell more than last year's 320,000 vehicles, while keeping prices stable so the brand maintains its long-term residual value. Given that other automakers are stepping up discounts amid slumping demand, that goal will be difficult to sustain, says Stuart Pearson, a London-based analyst at Exane BNP Paribas.

While Scheunert won't disclose what type of new model Citroën will begin manufacturing next year, Peugeot says it's on track to complete a fourth Chinese plant in 2016 focused on building SUVs and multipurpose vehicles.

For Scheunert, who speaks German, French, and English, the language barrier remains the biggest hurdle. To adapt more quickly to her new surroundings, she avoided renting in expatriate enclaves so she could have Chinese neighbors, learn more about their lifestyles, and use that knowledge to understand what would sell on the mainland. So far, "no one understands me, and I cannot understand anyone," she says. "And this is probably the most brutal change."

Scheunert says carmakers shouldn't count China out. "Everyone is talking about the negative trend and market change," she says. "For me, this means this is a good challenge." Just how certain is she of a rebound? She's signing up her almost 2-year-old son for Chinese lessons. —*Alexandra Ho*

The bottom line Citroën's first-half auto sales in China fell 6.7 percent, the brand's first six-month decline in three years.

Reinventions

Fujifilm Develops A New Focus

▶ Japan's film giant finds a second life after photography

▶ "I wouldn't say we've won yet. ... We're going to keep going"

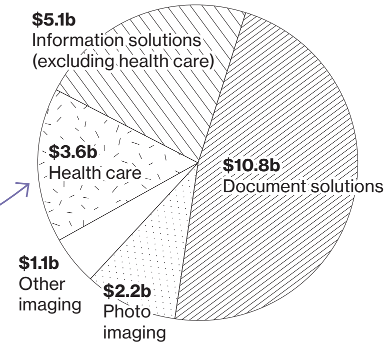
Tomoko Tashiro, a researcher at **Fujifilm Holdings**' lab in Kanagawa, Japan, came back from maternity leave in 2005 only to learn that she'd been reassigned. Rather than continuing her work developing molecules to prevent printed photos from fading, she'd be applying the same technology to human skin. "It was bewildering at first," Tashiro says. "But soon after, I could see how much value we could add."

Within two years, Tashiro had helped develop a beauty line called Astalift using the expertise she'd developed researching photographic applications. (A major ingredient of photo film is gelatin, a derivative of collagen. And human skin is about 70 percent collagen.) Now sales from the skin-care brand exceed 10 billion yen ($80.7 million) annually.

Includes collagen creams and stem cell products

Life After Photography

Fujifilm revenue for fiscal 2015



FISCAL YEAR ENDED MARCH 2015
DATA: FUJIFILM

Astalift's genesis is an example of how Fujifilm Chairman Shigetaka Komori has shifted the company's focus from its photo-film roots toward new science and technology markets, including Ebola drugs, anti-aging lotions, and stem cell research. Over the past decade, Komori has diversified into new businesses as demand for the company's trademark green photo-film boxes plummeted. Archrival **Eastman Kodak**, facing similar challenges, went bankrupt. But Fujifilm successfully managed its transformation; it reported a record profit of 119 billion yen for fiscal 2015 ended March 31.

Komori is venturing further into unfamiliar territory, with plans to spend more than 400 billion yen on acquisitions by 2017, add product lines, and make a more aggressive push into health care. "I wouldn't say we've won yet," he says. "It's difficult for any company to declare that, because everything is changing so fast. We're going to keep going."

Komori wants to double Fujifilm's health-care revenue to 1 trillion yen by 2018, up from 394 billion yen in fiscal 2015, or 16 percent of total revenue. Part of that growth, he hopes, will be driven by regenerative medicine, which focuses on repairing damaged tissue or organs. In March, Fujifilm agreed to pay $307 million for U.S.-based Cellular Dynamics International, a producer of iPS cells, types of stem cells capable of morphing into any body part. Another Fujifilm unit, Japan Tissue Engineering, already markets regenerated cartilage and skin products for use on burn victims and other patients. Komori is betting these businesses could someday create cells to regrow damaged ▶

FROM LEFT: RICK WILKING/REUTERS; COURTESY FUJIFILM

organs such as the liver or pancreas.

Despite a longtime association with film, "we're a company that specializes in managing cells," says Yuzo Toda, the chemist Komori has entrusted to lead Fujifilm's move into cosmetics and pharmaceuticals. "We look for game changers, areas which Fuji can win at. Controlling micro environments? We know that."

> "We look for game changers, areas which Fuji can win at. Controlling micro environments? We know that." —*Yuzo Toda, Fujifilm chemist*

Komori's makeover began a decade ago, when the ascent of digital cameras and smartphones began eroding film sales. He pushed engineers and executives to take a closer look at how the company ensured precision when making photo film; the same manufacturing techniques, he reasoned, could be used on other products that require the precise handling of small molecules. Fujifilm applied its expertise to new businesses, including pharmaceuticals and the films that hold LCD screens together. In 2008 it acquired drugmaker Toyama Chemical, the producer of an antiviral medicine used by some Ebola patients in West Africa last year. Photocopier machines and printers have become Fujifilm's largest source of revenue since film's slump, but Komori sees the biotechnology and pharmaceutical operations as more promising sources of growth.

Investors have so far applauded the shift, sending the company's stock up 66 percent over the past year. "I can praise their efforts for revenue diversification with businesses such as regenerative medicine [and] cosmetic items," says Minoru Matsuno, president of Value Search Asset Management, a Tokyo-based investment adviser. "For another stage of growth, they need more aggressive acquisitions and strategic alliances."

Fujifilm managers, however, say Komori's push to get employees to come up with new applications for their existing expertise will be a big part of the company's future, as well. Akira Kase, who heads Fujifilm's biopharmaceutical ventures from Tilburg, the Netherlands, remembers many such brainstorming sessions with Dutch colleagues a decade ago. One of their ideas, a filter used during the purification of natural gas, will soon reach the market.

"What you're seeing right now is just the tip of the iceberg," says Toda, who was promoted to executive vice president in June. "We have decades of technology and know-how backing us, and now that we've opened up these possibilities, expect much more to come." —*Natasha Khan and Kiyotaka Matsuda*

The bottom line Despite the contraction of its photo-film business, Fujifilm logged record earnings of $961 million in its last fiscal year.

Shoes

Skechers' Lesson From A Fad That Flopped

▶ It learns how to avoid getting clobbered by boom-and-bust styles

▶ "You have some investors that say leopards don't change their spots"

Five years ago, **Skechers**' Shape-ups shoes were the runaway leaders in "toning," a new category of sneaker that promised to help wearers slim down and strengthen their butt muscles. Toning-shoe sales grew more than twentyfold in only three years, from $50 million in 2008 to a peak of $1.1 billion in 2010, according to researcher SportsOneSource. Skechers owned about 60 percent of the market, and roughly a third of its $2 billion in revenue that year came from toning.

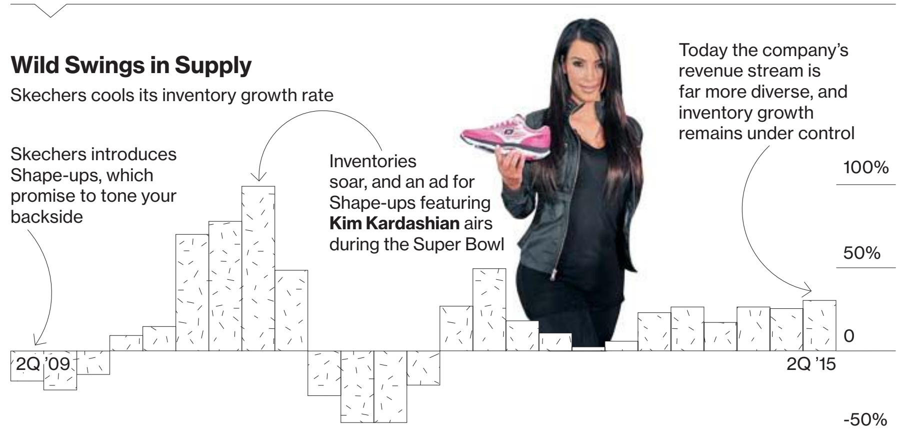
In February 2011 the company ran an ad during the Super Bowl showing Kim Kardashian bidding farewell to her personal trainer in favor of a pair of Shape-ups. By then, however, the shoes were quickly moving from fad to fiasco. Customers were increasingly buying Shape-ups at a discount, and millions of pairs sat unsold because Skechers had overordered. "There's just too much inventory," Chief Operating Officer David Weinberg told investors on an earnings call 10 days after the Super Bowl ad ran. It didn't help that the Federal Trade Commission soon began investigating Skechers and its rivals for false advertising about such shoes' health benefits. In May 2012 the company denied wrongdoing but agreed to pay the FTC $40 million to settle charges that it had deceived customers, and it was barred from making unsupported claims about weight loss and strengthening.

Now Skechers is flying high again. Its second-quarter sales jumped 36 percent this year, to $800.5 million, and its stock market valuation soared from less than $600 million at the end of 2011—the low point of the Shape-ups flub—to more than $8 billion today. This time no single trend is responsible—or could singlehandedly crater the company's fortunes. "In the past we've had some categories that grew significantly better than others. It moved the company around and made it a lot more volatile than we would have liked," Weinberg says, "but now we've got to the point where we can be successful in multiple categories."

It turns out that Shape-ups helped Skechers, if nobody else, get lean. The company has shortened the lead times on its factory orders and now plans for obsolescence by keeping new products in the pipeline to replace the old. "Shape-ups was the best thing that ever happened to them," says Sam Poser, an analyst at Sterne Agee CRT. "They've learned how to control it better." This self-control even includes asking retailers to cut back on their orders, according to Matt Powell, who follows the footwear industry for NPD Group: "There is a great deal of discipline in terms of how much product they're selling into the market."

Wild Swings in Supply

Skechers cools its inventory growth rate



Weinberg says that after Shape-ups, the company learned to avoid spikes in inventory through weekly monitoring of retail sales. “We just watch more; we have more controls,” he says. Skechers also now has the clout with manufacturers to add or reduce capacity more quickly, he says. Shape-ups, in his eyes, were a black swan: a brand-new category for an industry that usually deals in variations on old themes. Nobody knew how big it would get. “While we did learn from it,” Weinberg says, “we are still a very aggressive company.”

Skechers is now the No. 1 brand for walking shoes in America and is seeing brisk sales for its kids, comfort, and work footwear. The brand tops **Adidas** and **Under Armour** in athletic shoes in the U.S., according to NPD Group, and sits a distant second to **Nike**.

Skechers was born from the wreckage of L.A. Gear, the sneaker brand that rose with the aerobics shoes trend, only to collapse in the early 1990s. L.A. Gear founder Robert Greenberg started Skechers in 1992 and remains chief executive officer. The Shape-ups misstep stoked fears that Skechers was a feast-or-famine brand as well. “You have some investors that say leopards don’t change their spots,” Poser says.

But this time the Skechers brand is thriving by offering dozens of mass-market versions of popular styles. In 2010, for example, Skechers introduced a line of *alpargata*-style canvas flats called Bobs and promised to donate a pair of shoes to needy children for every pair it sold. The name, the style, and the one-for-one giving borrowed directly from **Toms**, a startup founded in 2006 that has given away more than 35 million pairs of shoes. Weinberg says Skechers is shedding its copycat reputation. “We’ve done that in the past,” he says, “but we’ve become significantly more innovative over the last few years.” Whatever the origin, Skechers knows how to sell. “They’re the best at commercializing good ideas in the marketplace,” Powell says. “It’s not essential that you be first with an idea. You just need to be best.” —*Ira Boudway*

The bottom line Skechers’ stock market valuation has risen from $600 million at the end of 2011 to about $8 billion today.

Edited by James E. Ellis
Bloomberg.com

Briefs

By Kyle Stock

Paying Up at Wal-Mart

Raises are proving costly at *Wal-Mart Stores*. The retailer’s profit in its most recent quarter fell 15 percent, to $3.5 billion, and it lowered targets for the current fiscal year weeks after it raised its minimum wage. Sales at U.S. stores open more than a year ticked up 1.5 percent in the period, though the company’s investments in e-commerce weighed on results. *Petco Holdings* filed to sell shares publicly almost 10 years after it was taken off the stock market in a $1.7 billion private equity buyout. Last year the company made a $75 million profit on $4 billion in sales, according to the prospectus. Comparable sales among Petco’s 1,400 stores have risen for 21 consecutive quarters as Americans increasingly pamper their dogs and cats. *Comcast*’s NBCUniversal spent $200 million for a stake in *BuzzFeed* in a deal that valued the new-media platform at $1.5 billion. Days earlier the media empire cut a similar deal with *Vox Media*, a BuzzFeed competitor. *Sprint* said it would scrap two-year cell phone contracts by the end of the year in favor of a model in which consumers lease handsets, rather than buy them at subsidized rates. Its “iPhone Forever” plan offers the newest version of Apple’s phone for $22 a month. *Verizon Communications* made a similar shift earlier this month. *AT&T* remains the only major U.S. carrier to offer subsidized smartphone purchases. *Sprout Pharmaceuticals* became the first company to win Food and Drug Administration approval for a pill designed to boost women’s libido. Dubbed Addyi, but popularly referred to as “Viagra for women,” the pill can have a host of serious side effects, including low blood pressure and nausea.

ARE YOU OVER 50?

You should buy something!

The **AARP** advocacy group launched a marketing agency to help companies sell to consumers over 50 years old, a demographic it says has been overlooked by Madison Avenue.

The number of alleged adulterers outed online about a month after hackers claimed to have stolen data from the website **AshleyMadison.com**, which facilitates trysts.

36m

CEO Wisdom

“I don’t think any company adopting the approach portrayed could survive, much less thrive, in today’s highly competitive tech hiring market.”

Amazon.com CEO **Jeff Bezos** responding to a *New York Times* article criticizing his company’s pressurized culture

FROM LEFT: MICHAEL BUCKNER/GETTY IMAGES; NICOLE CRAINE/WIREIMAGE/GETTY IMAGES; DATA: COMPILED BY BLOOMBERG

Medicare Always Within Reach

▶ **A Florida Medicare provider looks overseas for a new way to bilk American taxpayers**

▶ **"You will hardly recover anything of the funds you paid out"**

On the streets of Managua, the shuttle bus wrapped in a giant ad for free health care stood out. "Medicare for people living abroad," it proclaimed above the image of a cheerful older woman playing golf. But Medicare, the American public health insurance program for the elderly and disabled, isn't available in Nicaragua or anywhere outside the U.S., except in emergency circumstances. The clinic advertised, **Nostrum Medical Center**, had a way around that: Patients were required to provide a U.S. address, so their visits could be billed to American taxpayers.

Before the Nicaraguan scheme and a related one in the Dominican Republic were shut down last fall, the U.S. government paid out $25 million from 2011 to 2014 for medical care received by more than 1,000 foreign residents who signed up using post office boxes, mail-forwarding services, or the addresses of friends or relatives in Florida to conceal that they lived overseas. "We were a little bit astonished by the brazenness of the conspirators in this case, particularly with their widespread and open marketing," says Shimon Richmond, the special agent in charge of the Miami regional office of the inspector general of the U.S. Department of Health and Human Services (HHS), which oversaw the investigation.

Ten people, including a Managua physician and his son, have pleaded guilty in the swindle; one remains at large. Four conspirators, including two executives at **Florida Healthcare Plus**, one of the companies that billed Medicare for the patients seen abroad, will be sentenced in Miami on Aug. 27. (Florida Healthcare wasn't accused of wrongdoing.) The investigation is ongoing, with the HHS inspector general, the FBI, and the U.S. Department of State looking at other countries where Medicare scammers are recruiting patients.

The foreign-enrollment dodge is a new twist on Medicare fraud, which costs American taxpayers billions of dollars a year, according to FBI estimates. For years, the Centers for Medicare and Medicaid Services (CMS), which administers Medicare, had relied on the pay-and-chase method, paying claims first and going after those that looked suspicious after the fact. Recently, the government has increased efforts to boost detection before cheaters can start collecting reimbursements for falsified bills. Ramped-up screening under the Affordable Care Act has resulted in the revocation of Medicare billing privileges for about 34,000 providers, says Medicare spokesman Tony Salters. "CMS is strongly committed to protecting the integrity of the Medicare program," ▶

JOHN COLETTI/GETTY IMAGES

A bus in Managua

◀ he says. Medicare also fingerprints some applicants and makes unannounced site visits to providers' and suppliers' offices to weed out scammers.

The money made off Medicare fraud is often beyond the government's reach, because it's rapidly spent or hidden in offshore accounts. Even when cheats are caught, the chances are "you will hardly recover anything of the funds you paid out," says Seto Bagdoyan, director of audit services for the U.S. Government Accountability Office (GAO), which has issued reports critical of CMS's failure to snag sham enrollees.

The U.S. has recouped only $1 million in the Nicaragua case. When the defendants were arrested last October, one was leasing six new Mercedes-Benz sedans and living in a 14,000-square-foot Miami mansion, according to investigators. Only one of the 11—the son of the Managua doctor—reported significant assets, about $429,000 in a bank. Four told the court they couldn't afford lawyers. Eight cooperated with the investigation, according to the U.S. Department of Justice. Six have already been sentenced and received prison terms ranging from 15 months to four years.

The scammers primarily enrolled people into a Medicare Advantage Plan run by Coral Gables-based Florida Healthcare Plus, which was liquidated earlier this year. Health-care companies that sell Medicare Advantage Plans for the government are paid a fixed rate each month for every member, giving them an incentive to enroll as many as possible and keep the cost of treatment low. At Florida Healthcare Plus, former Chief Operating Officer Pedro Hernandez decided to enroll former U.S. residents living in Nicaragua and the Dominican Republic, where health care is cheap, according to the indictment. Five other employees at the company were also charged. A lawyer for Hernandez declined to comment.

The company's Medicare contract covered just a few Florida counties, so recruiters told prospective patients they couldn't get the free medical care without an address in one of the counties. Along with the bus ads, Nostrum and other clinics in Managua drummed up interest with full-page newspaper ads and informational sessions at local hotels. (The clinics weren't charged in the fraud.) American expats who saw the promotions, which promised care with no copays, tipped off U.S. Embassy officials. Investigators discovered that recruiters collected commissions of as much as to $300 for every enrollee. One man who'd been living in Managua since 2002 told U.S. agents he was instructed to use his nephew's address in Lake Worth, Fla.

In June, the GAO found that Medicare providers had registered about 24,000 patients at suspicious addresses. They included P.O. boxes at privately run mailing-services stores and a fast-food restaurant. "It's still an ongoing challenge," says Peter Budetti, who oversaw fraud investigations at CMS until 2013 and is now an attorney at Phillips & Cohen in Washington. "Bad guys are always trying to find new ways to game the system." —*David Armstrong*

The bottom line Florida health-care companies illegally billed the government $25 million for services to people in Nicaragua.

Campaign Finance

Another Way to Mask Super Rich Donors

▶ LLCs that contribute to campaigns aren't required to disclose backers

▶ "You have every right to do everything you want with your money"

In January, Ted Cruz's quest for the presidency got help from a limited liability company called **V3 231**. The LLC was listed as the source of a $250,000 donation to a super PAC supporting the conservative Republican senator from Texas. For anyone wondering what V3 231 is, or who controls it, there were few clues. A lawsuit filed in federal court mentions the company once owned a hotel in Brooklyn, N.Y. A search on the Internet reveals the name of the hotel's now defunct developer. One of the developer's former executives, reached on his mobile phone, says another man controls the LLC. That guy's name, the former executive says, is Ben Nash.

Nash was a 17-year-old yeshiva student from Brooklyn when he discovered a knack for selling cell phones. He dropped out of school and eventually made a fortune reselling used or surplus phones. His company, **PCS Wireless**, is targeting $1 billion in sales this year, according to *Business Insider*. Now 32, Nash has grown wealthy enough to dabble in Brooklyn real estate and philanthropy. He picks up the phone right away when reached at his headquarters in suburban New Jersey. He allows that he had dinner with Cruz a few months back, but he says he doesn't think he gave the candidate as much as $250,000. "We give to a lot of charity over here," he says. He ends the call promising to investigate. "I do want to check, for my own personal interest."

The next day, Nash's spokesman, Robert Barletta, confirms that Nash was behind the $250,000 donation. In an e-mail, Barletta calls the donation "transparent and fully within federal campaign finance laws" and motivated by Cruz's support for Israel.

When the Supreme Court ruled in 2010 to end a ban on corporate spending to influence elections, detractors envisioned an era when huge companies like Wal-Mart Stores or ExxonMobil would dominate politics in pursuit of profits. The reality is proving far different. Most business donations are coming from little-known LLCs whose founders and officers often don't have to be disclosed anywhere. In a few cases, it's so difficult to identify the source that the donations might as well be anonymous.

That alarms groups worried about the influence of money in politics. "When we're talking about these huge contributions, it's a way to buy corrupting influence without any public accountability at all," says Fred Wertheimer of Democracy 21, a Washington nonprofit. Since 2012, Democracy 21 and the Campaign Legal Center have filed four complaints with the Federal Election Commission challenging big donations through LLCs. The commission is deadlocked along party lines and has yet to take any action.

Some lawyers say closing the LLC loophole would require legislation. "I would advise a donor that you have every right to do everything you want with your money," says Dan Backer of DB Capitol Strategies in Alexandria, Va. "If that LLC chooses to make a contribution, that is the right of that LLC."

Donors seeking anonymity can also give to nonprofit advocacy

COURTESY U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Name That LLC

Can you identify the companies that made these donations to super PACs and other outside groups?

1.

$50k

TO THE PRO-JEB BUSH SUPER PAC **RIGHT TO RISE**. ITS ONLY IDENTIFYING INFORMATION IS THE ADDRESS OF A SERVICE COMPANY IN DELAWARE THAT SERVES AS ITS REGISTERED AGENT.

2.

$100k

TO **RIGHT TO RISE**. THIS LLC SHARES A MAILING ADDRESS WITH **PIVOTAL GROUP**, AN ARIZONA REAL ESTATE INVESTMENT FIRM RUN BY FRANCIS NAJAFI, WHO ALSO GAVE $100,000 IN HIS OWN NAME TO A PRO-RAND PAUL SUPER PAC.

3.

$1m

TO **RIGHT TO RISE**. IN EARLY AUGUST, A BILLIONAIRE COAL BARON NAMED CHRISTOPHER CLINE CONFIRMED HE'S BEHIND THE LLC, REGISTERED IN CHARLESTON, W.VA.

4.

$500k

TO AN INDEPENDENT ADVOCACY GROUP BACKING OHIO GOVERNOR JOHN KASICH. ITS PARENT COMPANY LISTS MARK KVAMME, A VENTURE CAPITALIST WHO WORKED IN KASICH'S ADMINISTRATION, AS ONE OF ITS TWO OFFICERS.

5.

$150k

TO **RIGHT TO RISE**. THIS COMPANY WAS FORMED IN DELAWARE LAST APRIL. RIGHT TO RISE SAYS IT DOESN'T HAVE A MAILING ADDRESS FOR IT AND IS SEEKING THAT INFORMATION.

1. Fulton Street **2.** DFX **3.** Jasper Reserves **4.** MMWP12 **5.** Tread Standard

groups—known as 501(c)4s, after the section of the tax code that defines them—which don't have to disclose the source of their funding at all. But, unlike super PACs, these groups aren't supposed to spend all their money influencing elections.

The biggest LLC donation of the presidential race has been a $1 million check to Right to Rise, a super PAC aligned with Jeb Bush, from **Jasper Reserves**. A Florida billionaire named Christopher Cline identified himself to Bloomberg as the source of the money. Cline is a coal baron whose 164-foot yacht, *Mine Games*, has its own two-person submarine.

Then there's **MMWP12**, one of the biggest donors to an independent advocacy group supporting John Kasich's presidential run. In early August, the Center for Public Integrity traced the LLC's $500,000 donation to Mark Kvamme, a venture capitalist and off-road-truck enthusiast who used to work in the Ohio governor's administration. Reached by phone, Kvamme is happy to share his opinion of Kasich. "I worked for the guy," he says. "I saw him do what he did in Ohio. The guy is spectacular." But Kvamme won't talk about any connection to MMWP12. "Let them report whatever they want to report," he says. "I'm not confirming or denying. It is what it is." —*Zachary R. Mider*

The bottom line Individuals with LLCs, not just major corporations, are making use of looser rules governing election contributions.

Environment

What a Load of (Pig) Crap!

▶ **The EPA delays promised rules to control 300 million tons of effluent**

▶ **"Are the creeks and streams showing the effects ...? Yes"**

Rene Miller grew up on a seven-acre slip of Duplin County, N.C., where her mother, Daisy, raised corn, chickens, and hogs. Now, what was a neighbor's tobacco farm across the narrow two-lane road is a field where a giant sprinkler sprays waste from an industrial hog-raising operation onto whatever happens to be planted there—corn, hay, soybeans. The force of the liquefied manure is so strong it splatters the street sign Miller installed to mark Daisy Miller Lane. "I can't go out in my yard to watch the cars go by. I can't put my clothes out on the line," she says. "It stinks."

Duplin County has the nation's highest concentration of industrial hog farms, with about 2 million pigs and 60,000 people. Environmental groups estimate the state's 8 million hogs produce about 14 billion gallons of waste a year. Nationally, according to the most recent report by the U.S. Environmental Protection Agency, feedlots for cattle, dairy cows, hogs, and poultry produce 300 million tons of manure a year.

The problem is how to dispose of it. In the swine facilities, hogs in groups of more than 20 are put into stalls with slats in the floor. Their feces and urine go through the openings and out pipes into open-air lagoons that can hold 180 days worth of waste. The industry says the holdings allow bacteria to break down the waste and gobble up pathogens. In its ideal state, the wastewater becomes free fertilizer for adjoining crop fields. "The application of waste is something that's become more and more popular because it's recycling," says Kraig Westerbeek, who oversees environmental compliance at **Smithfield Foods**, the world's largest hog producer and pork processor, which has contract farms and packing operations in North Carolina.

Yet nutrient-rich runoff from spray fields like the one across from Miller's farm also nurtures algae blooms that choke rivers by depleting them of oxygen. North Carolina has seen blooms in the Cape Fear River and fish kills in the Neuse River since hog feedlots moved in 30 years ago. The farms "are inarguably the biggest source of nutrients to the coastal region," says Larry Cahoon, a University of North Carolina at Wilmington professor who studies water quality in the Cape Fear River. "Are the creeks and streams showing the effects of nutrient loading? Yes."

In 2010, after being sued by the Waterkeeper Alliance and other environmental groups, the EPA pledged to reconsider a rule issued during the George W. Bush administration exempting feedlots from having to disclose hazardous emissions to the agency and the public. Five years later, the EPA hasn't done anything about it. On July 13 agency lawyers went back to court ▶

A hog feedlot in Duplin County, N.C.

◀ and said the regulations wouldn't be changed after all.

The Obama administration had early on signaled a different approach. Lisa Jackson, Obama's first EPA chief, pledged to crack down on water violations and make public more information about problems. (Jackson now oversees environmental initiatives at **Apple**.) The president's first appointee to oversee the agency's water quality office had been Nancy Stoner, an environmental attorney who'd sued the EPA to win tighter regulations on animal feedlots. Stoner left the EPA in 2014 to become director of water programs for the Pisces Foundation. She declined to comment.

The EPA says it's focusing on taking action against livestock producers that break the rules. "We are committed to civil and criminal enforcement for the cases that have the highest impact on protecting public health and the environment," Liz Purchia, an EPA spokeswoman, said in an e-mail. "At the same time, we're providing states with guidance and resources to help them."

Former EPA officials say the agency faces a hostile Congress urging it to go easy on the animal farms. Budget cuts have also constrained its ability to act. The EPA is also preoccupied with implementing carbon emissions rules, a top White House priority before Obama leaves office. Agency data show that its inspections and fines of feedlots, known as concentrated animal feeding operations (CAFOs), dropped to a seven-year low last year, with 26 enforcement actions compared with 71 in 2008. A study of animal air pollution has dragged on for decade. While the study continues, thousands of CAFOs continue under a safe-harbor accord guaranteeing they won't face any fines from the EPA for air pollution.


There are about 2 million pigs in Duplin County (none as cute as this one)

In June, the U.S. Geological Survey published a study on nutrient and pollution levels in streams near hog operations, comparing them with those far from feedlots. "Land applications of waste manure at swine CAFOs influenced ion and nutrient chemistry in many of the North Carolina Coastal Plain streams that were studied," the researchers concluded. In other words: CAFOs polluted the water. The North Carolina Pork Council disputes those findings and commissioned its own analysis of the USGS data, concluding that soil type, not the number of hogs, determined the amount of nutrients reaching streams.

For farmers, keeping up with the constant flood of waste is an issue. The Waterkeeper Alliance has documented hog farmers spraying on fallow and frozen fields and even on cattle as they grazed. Spraying also occurs on rainy days, despite regulations that are supposed to limit spraying during wet periods, when more effluent washes into waterways. "What they can put on the fields depends on average rainfall," says Rick Dove, a longtime Waterkeeper activist who's been tussling with hog farmers

for decades along the Neuse River, which runs through the heart of North Carolina hog country before emptying into the Pamlico Sound.

The expansion of North Carolina's poultry industry is adding to environmental hazards. While the total number of hog lagoons has been capped since the late 1990s, chicken production has grown by more than 42 percent to 795 million birds last year from 559 million in 1992. From a small airplane above Duplin County, it's easy to spot the long, metal-roofed buildings for chickens. Poultry doesn't produce as much liquid waste, but its litter is also spread on fields and can release nitrogen into groundwater or waterways.

Residents say they don't think anything will change without the federal government's involvement. "EPA needs to do what it should do, because we're living with this on our land," says Elsie Herring, who lives in Wallace, N.C., next to a field where the liquefied manure is sprayed. Former regulators say it's much harder to deal with agricultural runoff than factories. "The idea of treating a farm like a DuPont chemical plant is not good government or good business," says Sally Shaver, a former EPA official who consults with the hog industry on environmental issues. "I don't think there would be problems if these things didn't stink." *—Mark Drajem*

The bottom line The federal government hasn't made progress on promises to reduce the environmental impact of animal feedlots.

Campaign 2016

Scott Walker's Favorite Union Shop

▶ A Harley fan, he looks the other way on its business practices

▶ "There were unions involved, and there was government assistance"

For Republican presidential candidate Scott Walker, the **Harley-Davidson** motorcycle is a symbol of American freedom and independence. The Wisconsin governor, a dedicated hog rider, stages campaign events at Harley dealerships and routinely invokes the Milwaukee-based brand during speeches. "I'm a guy with a wife and two kids and a Harley," he said in his closing statement at the Aug. 6 Republican debate.

Yet Harley has succeeded thanks to two things that Walker's staked his career battling: government handouts and labor unions. Since 2000, the motorcycle manufacturer has received \$54.5 million in local and state tax incentives and more than \$2 billion in federal guarantees, according to Good Jobs First, a union-backed Washington nonprofit that tracks corporate subsidies. Its plants have been used as examples of how management can work with unions—Harley workers are represented by United Steelworkers and the International Association of Machinists and Aerospace Workers—to make production more efficient and keep high-wage factory jobs in the U.S. "Harley is often held up as an American success story," says Barry Burden, a political science professor at the University of Wisconsin at Madison. "There were unions involved, and there was government assistance at various times. It hasn't just been market forces that have made that happen."

The company was among those that benefited from the Federal Reserve's decision to backstop the commercial paper market at the height of the financial crisis in 2008 and 2009, lending government support to short-term corporate debt. The Fed guaranteed more than \$2 billion worth of Harley securities, according to the Good Jobs First data. "As one of many companies that issue commercial paper, Harley-Davidson was part of the program for less than four months," says company spokeswoman Maripat Blankenheim.

Harley has also received millions in state assistance, chiefly from Missouri, where it opened a factory in 1998 after asking several states for economic development incentive offers. The state has awarded the company about \$44 million, according to Good Jobs First. Much of it came in the form of a reduction in Harley's state income taxes in exchange for meeting hiring and other goals.

In Wisconsin, the company got \$2.3 million in local subsidies, all before Walker took office in January 2011. Blankenheim says the company also qualified for \$8.3 million in worker training and other credits made available when Harley updated and expanded its product development and manufacturing facilities in the early 2000s. In 2010, former Wisconsin Governor Jim Doyle, Walker's predecessor, offered Harley as much as \$25 million in state tax credits in exchange for the company keeping its factories there. Days after Walker was elected governor in November 2010, Harley announced that it would decline the nine-year tax credit deal because it might not be able to meet all of the state requirements.

Walker first attracted national attention in 2011 for championing a new law restricting public unions in his home state, and he then survived a union-led recall in 2012. "Washington seems to think that success is measured by how many people are dependent on the government," he said in his July 13 campaign announcement. "We measure success by just the opposite—by how many people are no longer dependent on the government."

> **"He is passionate about our brand, like the millions of other loyal Harley-Davidson customers around the world"**

The owner of a 2003 Harley-Davidson Road King, Walker participated in a June ride hosted by Iowa Republican Senator Joni Ernst and says he plans to ride in New Hampshire and South Carolina, too. In July, he staged campaign events at three Harley franchises and another shop that sells the bikes. "Governor Walker has fought for the last four years to retain and help create jobs in Wisconsin," Walker campaign spokeswoman AshLee Strong said in a statement. "He is proud to support homegrown Wisconsin companies like Harley-Davidson that help keep workers on the job and keep the state's economy moving."

Harley says it's flattered by Walker's attention, but it doesn't want to be drawn into the presidential race. "He is passionate about our brand, like the millions of other loyal Harley-Davidson customers around the world," Harley's Blankenheim said in a statement. "Harley-Davidson Motor Company does not endorse any candidate and remains neutral in political campaigns." *—John McCormick*

The bottom line Harley-Davidson has cultivated labor ties and government support, but one GOP candidate doesn't mind.

Edited by Allison Hoffman
Bloomberg.com

CLOCKWISE FROM TOP LEFT: PHOTOGRAPH BY TRAVIS DOVE FOR BLOOMBERG BUSINESSWEEK; DANIEL ACKER/BLOOMBERG; PAM FRANCIS/GETTY IMAGES

Know Your Net Worth
How Do You Stack Up?

Why Knowing Your Net Worth Is Essential

If you are close to retirement or already retired, knowing how much you are worth is essential. It will help you realistically determine the kind of retirement you can actually afford as well as help you select the best financial strategies to grow, protect and distribute your wealth.

How Do You Stack Up?

You'll find out where you rank in terms of total net worth and liquid net worth compared to others. Plus, if you have liquid net worth of over $500,000, you'll learn of some investment options that are now open for you as well as which ones are probably not right for someone of your financial standing and achievement.

Learn the Real and Hidden Retirement Investment Risks That Most People Ignore…Until It Is Too Late

In *Your Net Worth* we also share what we consider to be the five biggest wealth killers. You'll learn what they are and how to avoid them and their consequences. Surprisingly, some of these threats to your wealth are exactly what some financial "experts" recommend! Finding this out could save you thousands of dollars and prevent you from making some financial decisions that could threaten your retirement lifestyle.

Don't Run Out of Money in Retirement

With people living longer, with health care and long-term care costs continuing to rise and with general inflation eating away at your wealth in a slow but insidious way, now is the time to learn what steps you should and shouldn't take. It pays to understand the dangers as well as the options.

About Fisher Investments and Ken Fisher

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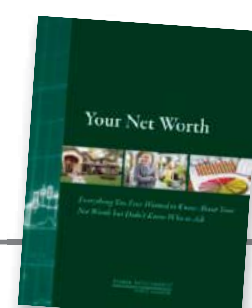

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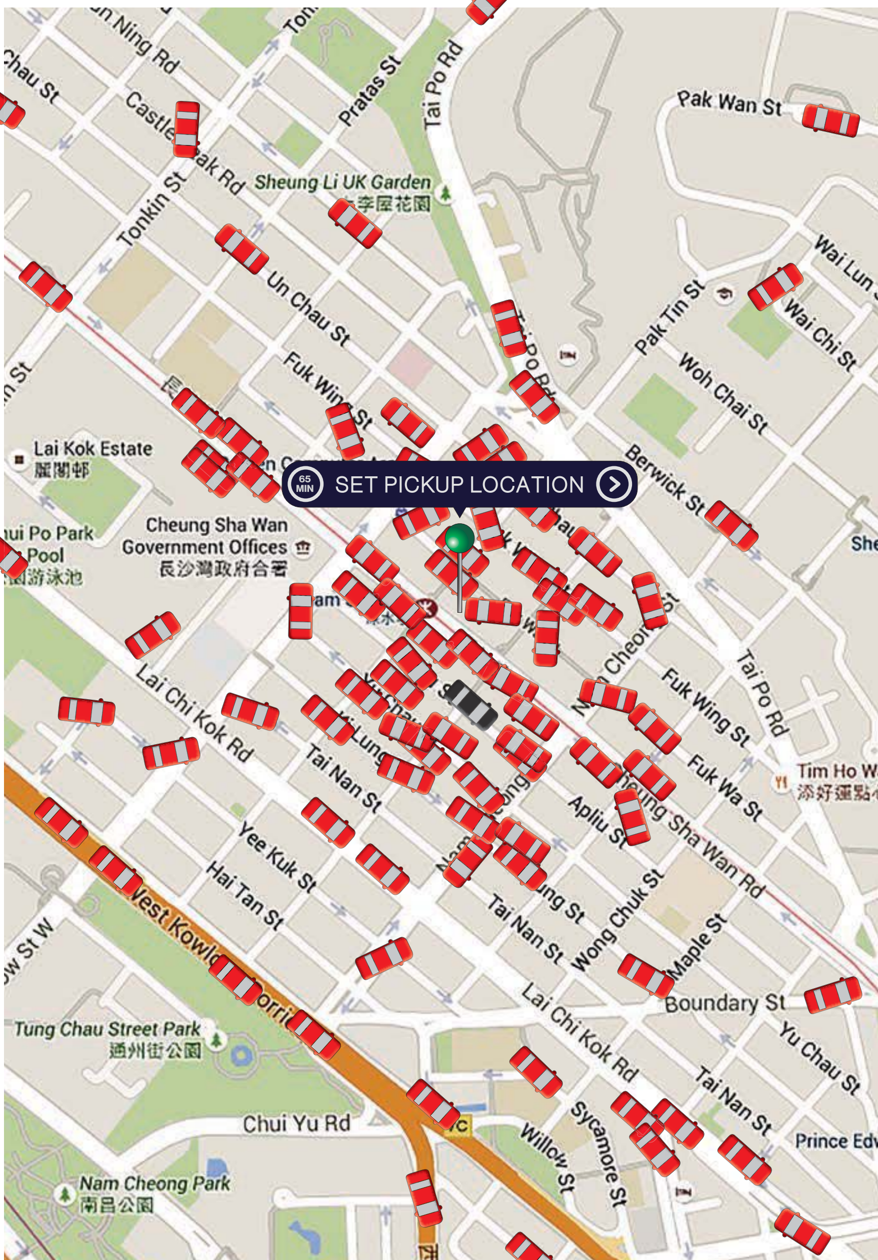


Racing to Stay Ahead of Uber

▶ **Didi owns China's online taxi business—and spends big to keep it**

▶ **"This is a battle that everyone is watching"**

A year ago, China's market for taxi-hailing apps was split almost evenly between one service called Didi and another called Kuaidi. Investors began pouring in money and choosing sides: In December, Didi raised $700 million from Chinese e-commerce company **Tencent** and Russian private equity fund **DST**; a month later, Kuaidi announced $600 million in funding from **Alibaba**, Japanese telecom **SoftBank**, and other investors. Then, in February, the two merged.

The combined company, **Didi Kuaidi**, accounts for 99 percent of the country's online taxi business and 78 percent of its private car business—a total of 8 million rides a day, according to researcher Analysys International. In July the company raised an additional $2 billion from investors including Alibaba, Tencent, and **Temasek Holdings**, the investment arm of the Singaporean government, and boosted its value to $15 billion. This latest funding round has one clear purpose: keeping **Uber** in Didi's rear-view mirror.

Uber has 11 percent of the country's private car business and is raising $1 billion to claim more. In a June message to investors, Chief Executive Officer Travis Kalanick said expanding in China is Uber's top global priority and that he plans to put Uber in more than 60 Chinese cities, up from 11, within a year.

So it's not surprising that the company comes up constantly when talking with Didi executives. "We are the only company that's trying to provide a comprehensive set of products that will service everyone. You don't see Uber doing that," says Didi Kuaidi's president, Jean Liu. "This is a battle that everyone is watching," says James Giancotti, CEO of Hong Kong-based Oddup, a company that rates startups. "It's China private vs. U.S. private."

Three-year-old Didi, which wouldn't disclose revenue, operates in more than 300 cities. It doesn't rely on its own network of drivers, instead tapping into China's millions of licensed cabbies and private chauffeurs. Riders use an app to hail idle cabs and can offer bonus fees or tips to woo drivers during peak ▶

ILLUSTRATION BY 731

◀ hours. Didi is also working on features that will let users compare prices and travel times across different kinds of transport, including buses.

The company has added a carpooling service called Didi Hitch that lets nonprofessional drivers sift through rider profiles and pick a person to share costs with. Hitch drew 3 million users in its first two months and is expected to reach 10 million by the end of the year, according to Liu. She's also lobbying government officials, most notably in Shanghai, to approve Didi's use of Uber-style surge pricing and a private fleet of black cars.

Didi says its local expertise gives it the advantage over San Francisco-based Uber, which is valued at $50 billion. "We feel it's very promising," Liu says of Didi's talks with Chinese officials. "We have a very good chance for collaborative reform, instead of disruptive annihilation." The company, she says, is working with the government to try to reduce traffic and pollution, to help cities including Shanghai adapt their transit management for mobile, and to act as an advocate for taxi drivers. Didi's 4,000-person ground-operations staff helps drivers negotiate discounts for dining and car washes.

It's for good reason that the ride-hailing service has taken steps to keep all the local stakeholders happy. China's municipal governments occasionally issue warnings or carry out crackdowns on car services, although mostly against unlicensed private cars. Earlier this month, the ministries of transport, industry, and public security summoned companies including Didi and Uber to "rectify certain problems," according to a newspaper run by the transport ministry.

Uber said in an e-mailed statement that it maintains close communication with local officials and is "on par with any other Chinese companies in the industry, meeting all potential required qualifications."

Just behind the company's co-CEOs on the Didi org chart, 37-year-old Liu has been a driving figure in its biggest projects of the past year. She grew up the daughter of Lenovo's founder, majored in computer science at Harvard, then spent 12 years managing Asia investments at Goldman Sachs before joining Didi as its chief operating officer last year. She was named president less than two weeks before the merger with Kuaidi was announced, and one of her first duties was to smooth the transition. "We have to stay highly coordinated," she says. "You can't have a bunch of people who are afraid to speak up, but you can't have people all acting on their own opinions."

Liu, a Goldman Sachs veteran, has introduced a similar rotation system for junior staff

Liu has recruited junior staffers from Bain Capital, Morgan Stanley, and McKinsey and introduced a rotation system akin to the one at Goldman, requiring new hires to work in a number of different departments before they settle into more permanent positions. She led Didi's last round of fundraising, and is using data analysis to figure out where next to send drivers.

So far, Didi has no plans to move beyond China, says Liu. "India would be the next logical step," says Michael Lint, a partner at Golden Gate Ventures. "But they would need to invest a significant amount of money to break that market."

For now, Liu is focused on making the most of her local advantage. Sometimes, though, China's brutal traffic jams require some unconventional thinking. While heading to a recent meeting with Beijing officials, the traffic brought her car to a halt, and Liu had to sprint half a mile to the subway then grab a nearby rickshaw to make the meeting on time. "It felt like I came out of a boxing match," she says. Depending on Uber's next moves, the real fight may just be beginning. *—Lulu Chen, with Tian Ying*

The bottom line Didi has 78 percent of China's licensed-vehicle rental business but is raising billions to fend off Uber.

Digits

476

The hourslong shutdown also led to 492 delays

Flights canceled in the eastern U.S. on Aug. 15 because of an air-traffic control failure at a Federal Aviation Administration facility in Leesburg, Va., according to the agency. The FAA is investigating whether a recent software upgrade was the cause.

Hardware

The Foxconn Of Bathroom Scales

▶ **Flextronics tries to remake itself as a leader in the Internet of Things**

▶ **"We liked that they were committed to being an innovator"**

Flextronics has spent 46 years as a low-margin, behind-the-scenes manufacturer of PCs, routers, and other basic electronics, so the *Thriller*-type jacket sitting in one of the company's research labs is a surprise. Bright blue instead of Michael Jackson red, the leather coat is dotted with more than 60 sensors and components, including a camera, a glucose monitor, and a wireless phone charger. Nearby, engineers from startups working with Flextronics tap away at similarly flashy gizmos—a headband designed to track moods, a moisture sensor that warns gardeners when they're drowning their plants.

The gee-wizardry is part of Flextronics's effort to remake itself as a leading manufacturer for the so-called Internet of Things, the growing ecosystem of devices, sensors, and industrial equipment that connect to the Web. With its PC and printer businesses maturing and customers such as **BlackBerry** jumping to cheaper rivals like **Foxconn**, the company, which recently renamed itself **Flex**, has seen

FROM LEFT: ZHEJIANG DAILY/IMAGINECHINA; TONY AVELAR

Startups working at Flex's accelerator

More than 60 sensors and components are built in

annual revenue drop about 9 percent since 2011, to $26.1 billion. Its share of the $409 billion electronic manufacturing services industry has fallen from 8 percent to 6.6 percent in that time, according to researcher IDC.

Building stuff for startups and non-tech companies is a lot more profitable than trying to satisfy giants such as Apple and Cisco, which have squeezed contract manufacturers' margins to around 2 percent. That's one reason San Jose-based Flex aims to become more indispensable with the Internet of Things business, says Jeannine Sargent, Flex's president of innovation and new ventures. "We touch everything from the connected home to the connected car to connected medical devices," she says. "Companies in all kinds of industries need to create intelligent, connected devices, but this is an area they just don't know about."

Flex's 2,500 product designers have created a library of 130 component designs that can help companies cobble together devices more quickly. Some of its engineers have built a tiny sensor that scans your retina, useful for products that need to log in users without keyboards. Another group focuses on bendable circuit boards that will be used in electronic tattoos to track vital signs, or in sneaker-mounted wireless chargers that draw power from a wearer's movement, says Joan Vrtis, who heads that team. "We are trying to be very much in front of what our customers want," she says.

To help customers make use of its components or create new ones, Sargent has opened 23 R&D labs across the country where they can work with designers and use 3D printers and industrial manufacturing equipment to make prototypes. Flex is developing smart shelves with **Intel** and crop-monitoring sensors with Farm2050, a food production consortium started with Google Executive Chairman Eric Schmidt.

Flex also offers startups lab space, equipment, and training at its $50 million Milpitas (Calif.) facility in exchange for undisclosed equity stakes. "We liked that they were committed to being an innovator, not just a manufacturer," says Ian Campbell, a co-founder of **NextInput**, one of the startups that joined the accelerator program. His company's chip makes touchscreens more sensitive to different levels of pressure. The workspace puts Campbell's wares on display for the thousands of larger companies that visit Flex looking for manufacturing help.

Companies making driverless farm equipment or bathroom scales that upload your daily weight to the cloud are willing to pay higher rates for engineering help and technological shortcuts, says Eric Miscoll, an analyst with consultant Charlie Barnhart & Associates. For Flex to develop steady sales, though, it'll have to pick the right partners—ones whose products can actually be made. In April, Flex canceled a contract with a startup called **Central Standard Timing**, which was trying to build a smartwatch that was less than a millimeter thick. In a June post on its Kickstarter page, CST said Flex lacked the specific manufacturing expertise needed for the watches. The startup's chief executive officer, Dave Vondle, declined to comment for this story, citing possible legal concerns. "We've executed on all of our obligations," says Sargent.

It will likely take years for IoT sales to offset Flex's slowing PC and smartphone businesses, but the company's profit margins rose from 1.6 percent in 2014 to 2.2 percent this year. Analysts predict they'll reach 2.4 percent in 2016. Flex's business is growing with clients including **Ford**, **Whirlpool**, **Johnson & Johnson**, and **Fitbit**. Still, Flex will need to move faster to avoid getting crushed by huge Asian manufacturers and stay ahead of nimbler startups, says Miscoll. "I wish they would do more," he says of Flex. "If you aren't getting 50 percent of your revenues outside of traditional electronics, please contact us, and we'll help you liquidate your assets." —*Peter Burrows*

The bottom line Flex projects a rise in its slim margins due to IoT component sales, but that hasn't offset slowing revenue.

Mobile

Investors Say HTC Ain't Worth Squat

▶ The phone maker announces more cuts as its market value plummets

▶ HTC's cash "is the only asset of value"

HTC has tried a lot of things to reverse its tumbling smartphone market share: Since last year, the Taiwanese company has replaced its marketing chief, begun selling GoPro-like action cameras and developing virtual-reality headgear, bet more heavily on its high-end but poor-selling line of phones called the One, and booted Chief Executive Officer Peter Chou in favor ▶

◀ of Chairwoman Cher Wang. None of that has worked, and shareholders aren't happy.

Investors saw HTC as a global player in 2011, when the company's sales topped $4.6 billion a quarter. It was briefly No. 1 in the U.S. back then but no longer ranks among most researchers' top 10. Over the past four years its market valuation has fallen by 95 percent (60 percent this year) as Apple, Samsung, and cheaper Chinese competitors have grabbed share. On Aug. 10, a further plunge left HTC's value at $1.5 billion, slightly below the amount of cash it has on hand—meaning investors are saying its brand, facilities, and designs are worthless. "Cash is the only asset of value. You can't really assess any value on the rest of the company," says Calvin Huang, an analyst at SinoPac Financial Holdings. "HTC's climb to the top made management too confident, with its ego leading to a string of mistakes in product design, marketing, pricing, and distribution."

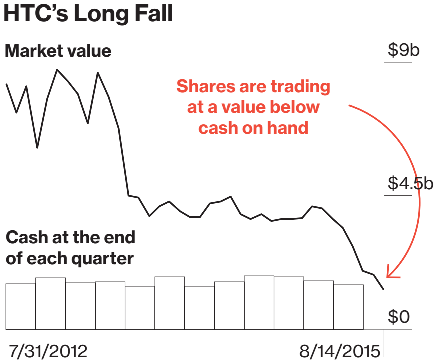
Wang said in a statement on Aug. 13 that the phone maker seeks to cut its staff of more than 15,000 by about 15 percent. She said the layoffs are part of HTC's plan to lower expenses by 35 percent and focus more on high-end phones and other hardware, such as the cameras and VR equipment. In an internal e-mail reviewed by Bloomberg and confirmed by the company, Wang said the plan "will deliver HTC to a world leading position in each of our chosen businesses." She added: "Be assured that I have full confidence that HTC will prosper again."

HTC is betting that a commitment to pricier phones such as those in its One line—well-received by reviewers but mostly ignored by customers—will encourage partnerships with well-known companies in other industries. The phone maker is working with video game developer **Valve** on its VR project and inked a deal with **Under Armour** last year to make fitness bands that carry the sportswear label's brand. Were HTC to shift toward cheaper models, "I don't think Under Armour would work with us," Chief Financial Officer Chang Chialin said at a press briefing on Aug. 6.

"Their strategy is not very clear," says Richard Ko, an analyst for KGI Securities. "VR is very cool, but it's a niche product, which I don't see contributing to sales in the next 12 months." So far, none of HTC's plans looks like a turnaround, Ko says. If sales grow, or at least stop falling, the planned 35 percent cuts might help HTC break even. Without them, he estimates, HTC will be out of cash within three years. Says Ko: "They have to stop the bleeding." *—Tim Culpan*

The bottom line HTC is counting on high-end smartphones and cost-cutting to help make up for its dwindling market share.

HTC's Long Fall



Video

HBO, Netflix, and Amazon Want Your Kids

▶ *Sesame Street* has become a new front in the streaming wars

▶ Children's content is "a critical glue" to Netflix's library

When **HBO** decided to take the Internet seriously by launching standalone streaming service HBO Now, it was just a matter of time before the network went looking for kids' shows. Its Aug. 13 deal with Sesame Workshop, for the right to put the next five seasons of *Sesame Street* on its cable channel and streaming services, shows just how important children have become to video providers as declining subscriptions in conventional pay TV start to reshape the industry. (PBS will be able to air the episodes after nine months.) The next day, **Amazon.com** and **Netflix** released new cartoons aimed at preschoolers.

Amazon premiered *Wishenpoof!*, about a young girl with magic powers, and Netflix debuted *Dinotrux*, which is exactly what it sounds like. These aren't either company's first forays into kids' programming: As of October, about a quarter of TV shows available on Amazon, and a sixth of those on Netflix, were aimed at children, estimates researcher SNL Kagan. In July, Amazon released six pilots with names like *Lily the Unicorn* and *Bear in Underwear*. Netflix, which in 2011 separated kids' programming from the rest of its catalog, will get new **Disney** movies as soon as they leave theaters starting next year. *Dinotrux* is the first new property to emerge from a deal with **DreamWorks Animation** for 300 hours of original programming, including established studio franchises as well as shows with fresh characters.

Streaming services are far easier for viewers to cancel and resubscribe to than cable TV, so the goal is to make that decision harder for parents, says Rich Greenfield, an analyst at BTIG. "Remember when Netflix launched *House of Cards*, dropping all episodes at once, and investors feared consumers would sign up for three days, binge the entire series, and then disconnect?" Greenfield says. "Netflix combated this risk by adding a significant amount of content" to its overall lineup, helping it to target "all members of the family, with children's content a critical glue to its offering." Netflix declined to comment for this story; Amazon didn't respond to requests for comment.

HBO didn't have to worry much about using kids' shows to retain customers until recently. Its streaming service doesn't even include *Fraggle Rock*, the children's show that shares lineage with *Sesame Street* and premiered on the network in the 1980s (rival services carry the

CLOCKWISE FROM BOTTOM LEFT: DATA: BLOOMBERG; PHOTO ILLUSTRATION BY 731; PHOTOS: GETTY IMAGES (2); COURTESY RICE UNIVERSITY (1); ILLUSTRATION BY 731 (3)

program). Given that even premium cable channels are often part of larger packages bundled with broadband and phone services, it can be more trouble than it's worth to drop HBO once the latest season of *Game of Thrones* ends. With its kids' content and $15-a-month standalone service, HBO is betting it will keep attracting viewers, whether they're cable customers or cord cutters.

Hulu, which relies more on ads than the other streaming services, has been less enthusiastic about kids' shows. Children's programming and ads can make for an awkward match online. When **YouTube** launched a kids' service earlier this year, it came under attack from advocates who opposed showing ads to kids. Hulu includes shows from Nickelodeon and Cartoon Network and offers a kids' channel through its paid service, but only 3.7 percent of its shows are for children, SNL Kagan found in its October survey. Hulu declined to comment.

"Blending of children's programming content with advertising material on television has long been prohibited because it is unfair and deceptive to children," a consortium of consumer advocacy groups wrote in an April complaint to the Federal Trade Commission. "The fact that children are viewing the videos on a tablet or smartphone screen instead of on a television screen does not make it any less unfair and deceptive." Seth Shafer, an analyst with SNL Kagan, says Hulu and its advertisers may be concerned about further blowback.

Skepticism about running ads on kids' programming online has contributed to the rise of niche subscription services like the Sesame Go website, which offers a library of videos and games featuring *Sesame Street* characters for $4 a month. Shafer says that if these services can get a kid hooked on a show, mom or dad will likely do what it takes to keep the episodes streaming. "If my two-and-a-half-year-old [were] deprived of *Curious George*," he says, "my life would be such living hell." —*Joshua Brustein*

The bottom line To become more indispensable, HBO, Netflix, and Amazon are expanding their collections of kids' shows.

Edited by Jeff Muskus
Bloomberg.com

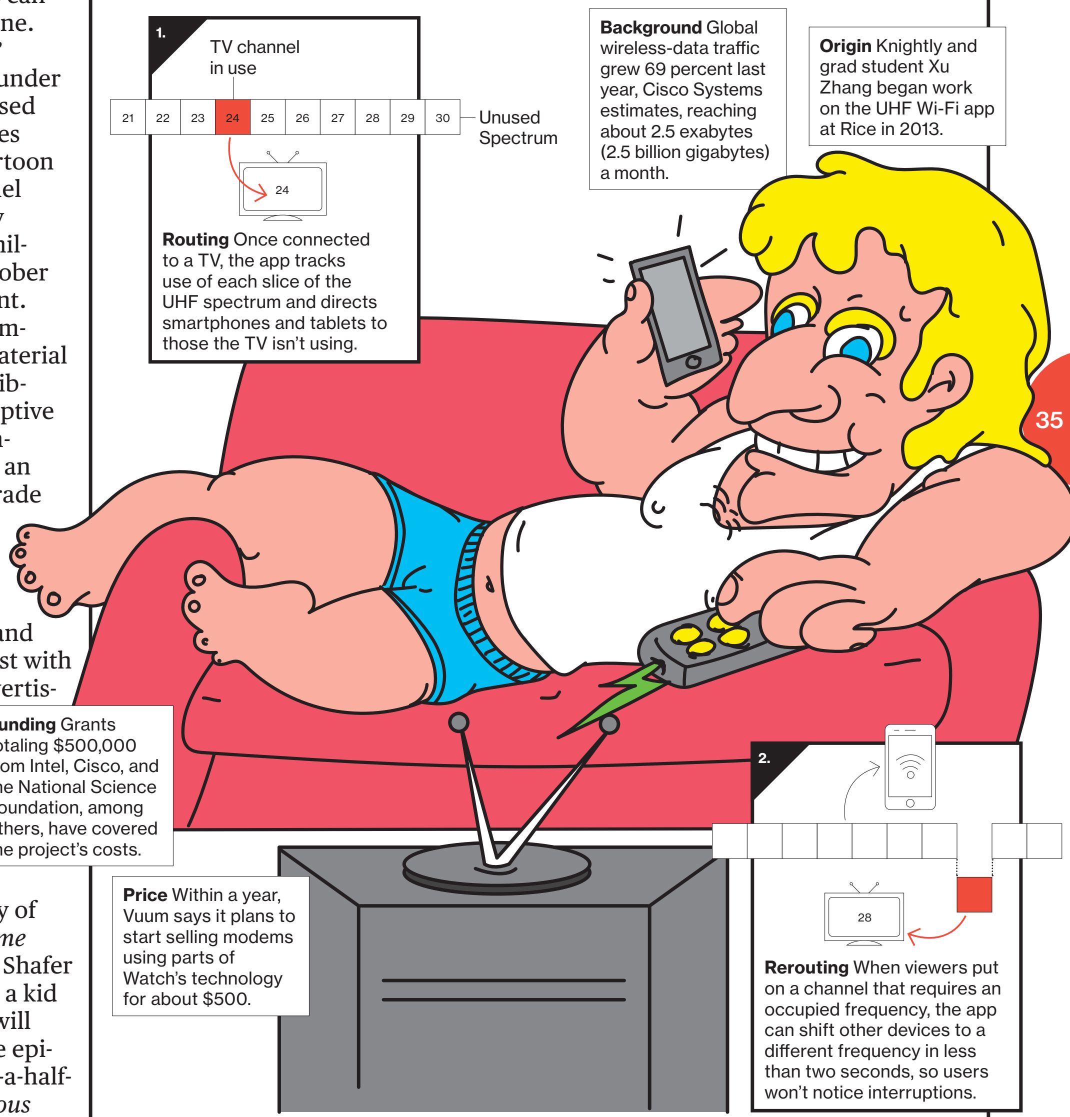
Innovation

UHF Wi-Fi

"Allowing the UHF spectrum to be inefficiently used makes little sense today and will make even less sense in the future"

Form and function
Watch, an app that can be installed on a smart TV or remote control to increase Wi-Fi bandwidth by up to six times, recycles idle or unused spectrum typically given to ultra-high-frequency (UHF) TV channels.

Innovator Edward Knightly
Age 46
Co-founder of three-year-old startup Vuum and professor at Rice University in Houston



Routing Once connected to a TV, the app tracks use of each slice of the UHF spectrum and directs smartphones and tablets to those the TV isn't using.

Background Global wireless-data traffic grew 69 percent last year, Cisco Systems estimates, reaching about 2.5 exabytes (2.5 billion gigabytes) a month.

Origin Knightly and grad student Xu Zhang began work on the UHF Wi-Fi app at Rice in 2013.

Funding Grants totaling $500,000 from Intel, Cisco, and the National Science Foundation, among others, have covered the project's costs.

Price Within a year, Vuum says it plans to start selling modems using parts of Watch's technology for about $500.

Rerouting When viewers put on a channel that requires an occupied frequency, the app can shift other devices to a different frequency in less than two seconds, so users won't notice interruptions.

Next Steps
Chief Executive Officer Ryan Guerra says Vuum is in talks with several Internet providers to test its technology over larger areas. The Federal Communications Commission authorized a small public test of the Watch app in Houston last year, but would have to approve broader implementation. Still, for now, "it looks quite promising," says independent wireless analyst Chetan Sharma. —*Olga Kharif*

Insider Trading Then and Now

▶ Hackers allegedly made $100 million stealing news releases

▶ “You can find people online who’ll do what you want for a pizza”

During the 2011 trial of hedge fund manager Raj Rajaratnam for insider trading, prosecutors showed how complicated and expensive it can be to maintain a pipeline of illicit stock tips. Some sources were paid more than $1 million; others dished in the course of friendships groomed for years. One analyst boasted on a wiretap of playing a contact “like a finely tuned piano.” Rajaratnam, charged with making $45 million on inside information, was sentenced to 11 years in prison.

Compare that with the simplicity of an alleged insider-trading ring broken up by U.S. authorities on Aug. 11. Hackers stole 150,000 news releases packed with financial data from the computer servers of public-relations companies, then made the information available to traders in the U.S., Cyprus, Russia, and France, prosecutors say. The U.S. attorney’s office in Brooklyn says nine men netted $30 million, and a broader lawsuit by the U.S. Securities and Exchange Commission lists more than two dozen people and companies in an alleged scheme that earned $100 million.

As prosecutors continue to deploy ever more aggressive tactics, such as wiretaps and witness flipping, to curb illegal trading on Wall Street, criminals have leapt past them with a straightforward ruse: Steal information instead of persuading others to share it. The hacking case stokes a long-held fear in industries from banking to electricity that data stolen from servers will be used to manipulate markets or trade on nonpublic information.

The new model opens up opportunities for fraudsters who don’t have a deep network of Wall Street relationships. And it may trigger a reevaluation of the lasting effects of the Rajaratnam case and another set of prosecutions involving the hedge fund SAC Capital—top priorities for Preet Bharara, the U.S. attorney for the Southern District of New York. Rather than significantly deterring insider trading, specialists say, those trials may have simply accelerated the move to cyberspace, where the personal ties that tripped up defendants in the physical world no longer exist.

“In the classic examples, the currency of insider trading was a personal

ALAMY (3); GETTY IMAGES (2); ISTOCK (1)

Is Bill Miller a genius or a dope? 38

Bid/Ask: Planes, trains, and automobiles 39

“In the classic examples, the currency of insider trading was a personal relationship.” —*Edward Stroz*

relationship,” says Edward Stroz, a former FBI agent who’s now executive chairman of Stroz Friedberg, which advises firms on hacking schemes. “All of a sudden you have this possibility that never existed before, where proxy insiders can get information from an ocean away.” The ease of stealing insider details—without recourse to insiders—from an endless supply of law firms, journalists, and other parties in the financial world presents an enormous challenge to the ideal of a level playing field for the market.

According to federal indictments unsealed on Aug. 11, hackers infiltrated the servers of PR Newswire, Marketwired, and Business Wire from 2010 to 2015. They worked under tight deadlines, sometimes scooping up the information they needed in as little as half an hour. As a result of one alleged hack of a Caterpillar earnings announcement, traders bought more than $8.3 million of the company’s shares and options, anticipating a pop in price the following day. The bet worked, netting the defendants about $1 million, according to prosecutors. The PR companies say they’re cooperating with prosecutors and examining their security systems.

“This international scheme is unprecedented in terms of the scope of the hacking, the number of traders, the number of securities traded, and the profits generated,” SEC Chair Mary Jo White said at a news conference. The agency sued 17 individuals in a civil complaint, and prosecutors brought criminal charges against nine of them. Some defendants remain at large. The only professional U.S. trader arrested was Vitaly Korchevsky, of Glen Mills, Pa. He hasn’t entered a plea.

SEC officials say the indictments show they’re onto hackers. But that’s far from clear, according to former officials, who note how hard it’s been for everyone from Hollywood stars to the U.S. Department of Defense to protect even the most intimate secrets. “With the ubiquity of hackers now, you can find people online who’ll do what you want for a pizza,” says Slade Griffin, director of security assessments for Contextual Security Solutions. “You combine the financial brilliance of someone that’s criminally minded with the ease of access to hackers and hacking tools—why wouldn’t you do it?”

In a news release announcing the hacking case, the SEC said it had traced a series of suspicious trades to the alleged conspirators. John Reed Stark, the SEC’s former head of Internet enforcement, says that, though hacking is often hard to detect, consistently trading on insider information leaves a different kind of trail the agency is good at spotting.

There’s still plenty of uncertainty ahead, including statutes and case law that don’t contemplate hacking as an efficient means to gather vast quantities of illicit market intelligence, Stark says. He points to a recent federal court decision that held hackers must use deceptive methods to enter a computer network for the SEC to have jurisdiction. That would entail methods such as sending malware-loaded e-mail but might not include exploiting an existing security flaw in a company’s computer system. “To the average person, hacking into a computer in order to get information to trade on would be illegal,” Stark says. “But depending on how it’s done, it might be theft but not necessarily securities fraud.” *—Keri Geiger, Michael Riley, and Jordan Robertson*

The bottom line U.S. authorities say hackers illegally accessed 150,000 news releases, an example of a new form of insider trading.

China

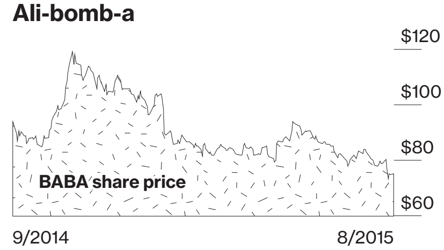
Alibaba’s $105 Billion Wipeout

▶ The e-commerce giant’s market cap has sunk the most in the world

▶ “Investors don’t think Alibaba can uncouple” from China’s slowdown

It took less than a year for **Alibaba Group Holding** to turn from a stock market darling into the biggest source of shareholder losses worldwide. From its peak, two months after a September 2014 initial public offering—the largest ever, at $25 billion—the company has lost $105 billion in market capitalization, the equivalent of Bristol-Myers Squibb’s in its entirety.

Ali-bomb-a



DATA COMPILED BY BLOOMBERG

Now China’s biggest e-commerce operator is plotting its comeback. The Aug. 10 purchase of a stake in **Suning Commerce Group**, Executive Chairman Jack Ma’s largest deal, is part of the company’s push to reach millions of new customers in rural China and abroad. The strategy may take time to work, though, and Wall Street is showing signs of impatience since the release of Alibaba’s quarterly results on Aug. 12. Shares fell after sales grew at the slowest pace in at least three years. Analysts at Atlantic Equities and Pacific Crest Securities downgraded the stock to neutral. Still, 85 percent of analysts tracked by Bloomberg recommend buying Alibaba, forecasting a 29 percent rally over the next year, the third-biggest projected return among the world’s 25 largest companies.

28%

Alibaba’s sales growth last quarter, down from an average of 56 percent for the previous 12

Investors are concerned that the e-commerce market is reaching saturation in China’s larger, wealthier cities. Meanwhile, China’s economy is growing at its weakest pace since 1990. “The growth slowdown will continue to be a problem,” says Li Muzhi, a Hong Kong-based analyst at Arete Research Services. “Investors don’t think Alibaba can uncouple from the overall slowdown in China, especially when the majority of its revenue still comes from within the country.”

Alibaba also announced plans to buy back $4 billion of stock over a two-year period, mainly to offset shares paid out to keep and attract ▶

Digits

−53%

Worst performer!

Frisco's losses follow a 20 percent drop in 2014 and a 51 percent decline the year before

Drop this year in the value of Mexican gold miner **Minera Frisco**, 78 percent owned by Carlos Slim. That's the worst among 90 similar companies tracked by Bloomberg. Slim has lost $10.8 billion of his wealth in 2015—the largest decline in the world.

◀ talented employees. Compensation costs soared to $644 million in the most recent quarter, almost quadrupling from a year earlier. "Investors probably weren't expecting this when they first invested," says Ray Zhao, an analyst at Guotai Junan Securities in Shanghai. Ma and co-founder Joseph Tsai said they will use their own money to participate in the share repurchase program.

Alibaba's stock has never traded below the $68 per share paid in last year's IPO. But in January, the company faced a scathing report from the Chinese government about its business practices; in May it was sued by the maker of Gucci handbags over allegations of counterfeiting; and in June it agreed to sell its U.S. website 11 Main after lackluster sales. Alibaba is fighting the lawsuit in court.

Ma's $4.6 billion purchase of a 20 percent stake in Suning adds more than 1,600 electronics stores in about 290 cities to Alibaba's network. Online, mobile transactions more than doubled this quarter, with mobile revenue topping desktop sales at Alibaba's retail marketplaces for the first time. Foreign sales trends were less encouraging: The company got just 9 percent of its revenue from overseas, unchanged from the previous period. Ma has said he wants ultimately to get half of sales from outside China. Alibaba named Michael Evans, a former vice chairman of Goldman Sachs, its president this month, putting him in charge of global expansion.

Some prominent investors ditched Alibaba before the weak earnings report. Chase Coleman's Tiger Global Management owned shares worth $557 million at the end of March; by June 30 its stake had shrunk to less than $8 million. The family office of billionaire George Soros also trimmed nearly all of its $370 million bet over the same period. —*Lulu Yilun Chen*

The bottom line Despite Alibaba's stock slide, 85 percent of analysts tracked by Bloomberg give the company a buy rating.

Investing

Is It Bill Miller Time Again?

▶ The fallen Legg Mason fund manager is winning again

▶ "I'm just not sure he always gets sufficient reward for the risks"

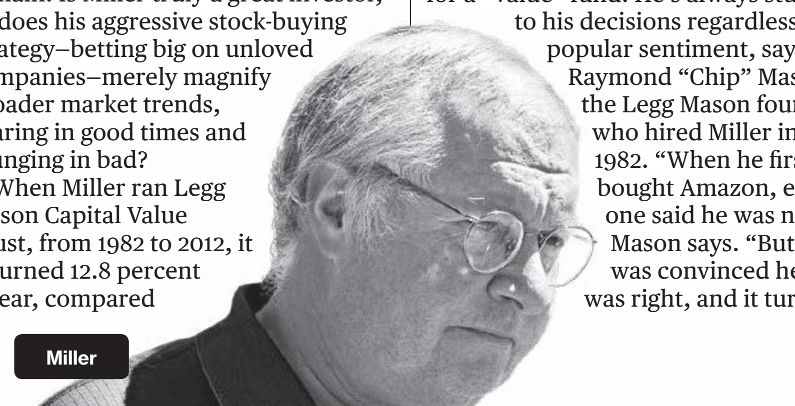
In his three decades as a mutual fund manager, Bill Miller has gone from genius—besting the Standard & Poor's 500-stock index for 15 years in a row at Legg Mason Value Capital Trust—to failure amid the financial meltdown. Now the 65-year-old is on a three-year rebound. The questions from critics remain: Is Miller truly a great investor, or does his aggressive stock-buying strategy—betting big on unloved companies—merely magnify broader market trends, soaring in good times and plunging in bad?

When Miller ran Legg Mason Capital Value Trust, from 1982 to 2012, it returned 12.8 percent a year, compared with 11.5 percent for the S&P 500. Opportunity Trust, which he still manages, gained 6.3 percent annually from 1999 through June 2015, topping the S&P 500's 4.2 percent. His success helped **Legg Mason** grow from managing $54 billion in 1997 to $1 trillion 10 years later. When the market melted down in 2008, Miller was caught holding too many financial stocks: The S&P 500 plunged 38 percent, but his Capital Value fund fell 55 percent, and Opportunity Trust lost 65 percent. Investors fled, and in 2012 he stepped down from running Capital Value, the bigger of the two funds he managed, which is now called ClearBridge Value Trust.

Miller says that in the long term, through bull and bear markets, he's "crushed" the general market and proved his worth as a money manager. He's willing to take the blame "for a really big mistake" heading into the recession and is aware of the damage the crisis did to his reputation. Still, he says, "I find it interesting that the press was very quick to anoint people—I won't name them—who got something right 'once in a row.' At the same time they decided that people with 20-year track records apparently just lost it."

Bill Gross, the "bond king," who's had his own share of ups and downs, says that Miller, while an "esteemed public icon," would need another significant stretch of beating his rivals to cement his reputation as a great investor. Others say even that won't do it. "Bill Miller would need to have more than a few good years to get back into people's good graces," says Lawrence Glazer, managing partner at Mayflower Advisors in Boston. "It would take that to get them to overlook the downturn."

Miller's strategy has been value investing: buying stocks trading for less than they're worth because the market has misjudged them. He's also bought out-of-favor growth stocks such as **Dell** and **AOL**, surprising choices for a "value" fund. He's always stuck to his decisions regardless of popular sentiment, says Raymond "Chip" Mason, the Legg Mason founder who hired Miller in 1982. "When he first bought Amazon, everyone said he was nuts," Mason says. "But he was convinced he was right, and it turns



Miller

MATTHEW STAVER/BLOOMBERG

out he was." Opportunity Trust bought **Amazon.com** stock for an average of just above $20 a share. Today it trades for more than $525. When **Netflix** lost 80 percent of its value in 2011 and 2012, Miller pounced. "It is up more than tenfold in three years," Mason says.

Other bets didn't pay off. Miller loaded up on shares of **Eastman Kodak** as it tried to cope with digital photography. The company filed for bankruptcy in 2012.

Recently, Miller's methods have been working again. His $2.5 billion Opportunity Trust has returned 37 percent annually for the past three years, making it the top performer among diversified U.S. equity funds. Yet it still trails 98 percent of similar funds over 10 years and 95 percent over 15, according to Russel Kinnel, director of mutual fund research at Morningstar. "Bill Miller is a smart, aggressive investor," Kinnel says. "I'm just not sure he always gets sufficient reward for the risks he takes."

In interviews, Miller has said the financial crisis caused him to lose sleep and gain 40 pounds as he wrestled with the consequences of losing so much of his investors' cash. "It had to affect him," says Ken Leech, chief investment officer at Legg Mason's bond unit, Western Asset Management, and a longtime investor in Miller's funds. "He went from being a rock star to last place. But he stuck it out and hung in there."

Since the recession, Miller has become more sensitive to broad macroeconomic developments, a policy that kept him from investing in Europe during the region's debt crisis in 2011. The fund also no longer buys hard-to-sell assets such as private equity stakes, says Samantha McLemore, Miller's co-manager since 2008. Michael Mauboussin, a Credit Suisse executive who's known Miller for more than 20 years, says he was and still is a smart contrarian investor. The wild swings in his reputation need to be put in perspective: "When things are going well, you are a genius. When they are going badly, you are a dope," Mauboussin says. "The truth is never as extreme." —*Charles Stein*

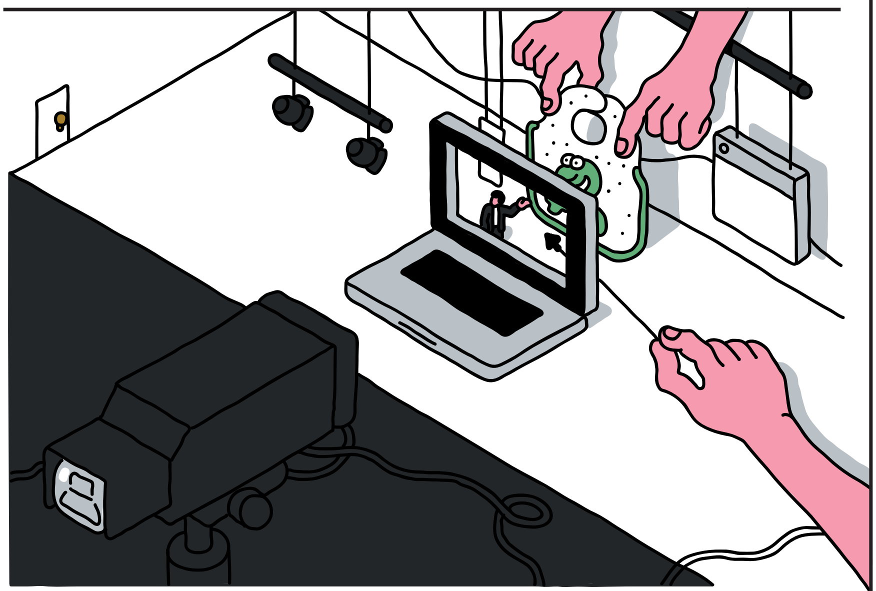
The bottom line Up 37 percent, Miller's Legg Mason Opportunity Trust is the No. 1 diversified U.S. equity fund for the past three years.

Edited by Eric Gelman and Nick Summers
Bloomberg.com

BID/ASK ILLUSTRATION BY OSCAR BOLTON GREEN

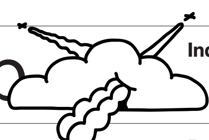
Bid/Ask

By Kyle Stock

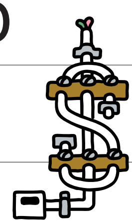


$2.4b

Liberty Interactive clicks on Zulily. Zulily's 2013 initial public offering started a buying frenzy that mirrored one of the daily flash sales on the e-commerce site, popular with new moms. The company was briefly worth $9 billion. Since then, its model has fallen out of favor, and the owner of the QVC home-shopping service is getting the site—and its choice demographic and recognizable online brand—for a big discount.



$27b — **IndiGo and Airbus come in for a landing.** India's largest airline confirms it will buy as many as 250 jets, which would be the most planes for Airbus in a single deal.



$8.9b — **Brookfield Asset Management loads up on Asciano.** The rail-and-port giant handles nearly half of Australia's container traffic. Canada's Brookfield will own 78 percent.

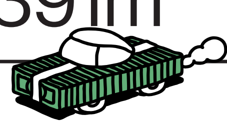
$1.8b — **Pentair acquires Erico Global.** The Ohio-based Erico makes electrical fasteners, which will complement Pentair's industrial fluid and thermal control systems.

$1.8b — **BB&T gets National Penn Bancshares.** The deal adds 124 mid-Atlantic branches to 240-plus locations BB&T picked up earlier in August by buying Susquehanna Bancshares.

$1.5b — **Cargill hooks a Norwegian fish-food maker.** EWOS's seven facilities, supplying fish farms worldwide, mark the food titan's largest bet yet on aquaculture.

$1.4b — **Greece sells 14 airports to—guess who.** Germany's Fraport will have a 40-year concession. It's the first privatization to be approved since Greece's latest bailout.

$391m — ***Vroom, vvvrrrooommm!*** At Monterey Car Week, the auctions' total trailed last year's equivalent take of $403 million. Seven of the top 10 sales were Ferraris.



August 24 — August 30, 2015

Greece Gets Something Right!

▶ Plagues and pests in Spain and Italy are opening markets for Greek olive oil

▶ "It doesn't have cachet with Americans yet. But we think it will"

Greece's economy may be pressed on all sides by austerity measures, capital controls, and political forces within and without. But as the October start of the olive harvest approaches, some of the country's entrepreneurs see a rare opportunity to take market share from Spain and Italy, the world's No. 1 and No. 2 producers of olive oil.

Lousy weather, a mysterious tree disease, and a fruit fly that feasts on olives have decimated groves in Italy. Nearly a tenth of the 10 million trees in Puglia are infected with a disease that has been dubbed "olive ebola" (some scientists believe it is the bacterium called *Xylella fastidiosa*), which slowly kills the trees. As a result, Italy's olive oil producers are bracing for another bad season, on the heels of a 34 percent decline in output in 2014-15, to 302,000 metric tons, according to data from the Madrid-based International Olive Council (IOC). Production in Spain fell by more than half, to 825,700 tons, in the most recent season, and will likely remain depressed due to a prolonged drought.

Greece saw its output more than double in the previous season, to 300,000 tons, and the local industry is hopeful it will be close to that in the coming season. Thanks to this combination of factors, Greek olive oil is more competitive than ever, at least on a price basis. According to a June report from the council, wholesale prices for extra-virgin categories from Italy and Spain have surged 114 percent and 84 percent this year, respectively, to €5.66 ($6.25) per kilo and €3.59 per kilo. In contrast, prices for Greek oil have climbed just 24 percent, to €3.09 per kilo.

The price advantage is helping small and midsize producers who make up most of Greece's olive oil industry find new markets. The IOC reports Greek exports from the most recent harvest to the U.S., now the world's top olive oil consumer, rose 28 percent from October 2014 through June of this year, while exports from Spain and Italy both dropped more than 50 percent.

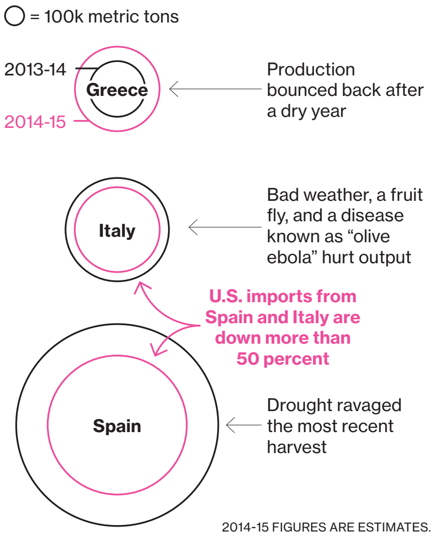
At **Costco Wholesale**, 2-liter bottles of the retailer's Kirkland Signature extra-virgin olive oil sport a cap tinted Aegean blue, in place of a green cap, a subtle reference to the company's switch this year from Italian to Greek oil. Depending on crop conditions, "It can be tough for us to source all of our product out of Italy every year," says Chad Sokol, a buyer for Costco in Northern California. "It's fantastic oil coming out of Greece. It doesn't have cachet with Americans yet. But we think it will."

Greece is home to more than 520,000 olive growers, many of whom rely on traditional methods such as handpicking the fruit. Cold pressing, where a machine crushes the olives to extract the oil without the aid of heat or chemicals, is the norm. This qualifies four-fifths of Greece's oil to carry the higher-quality extra-virgin designation, compared with about two-thirds in Italy and a third in Spain.

All the same, Greece's Mediterranean rivals have done a better job selling consumers on their methods and purity, according to many experts, including Tom Mueller, who wrote *Extra Virginity: The Sublime and Scandalous World of Olive Oil*. He contends that about 70 percent of the olive oil sold in the U.S. isn't extra-virgin, though ▶

COURTESY GAEA

The Oleaginous World Order
Olive oil production



2014-15 FIGURES ARE ESTIMATES.
DATA: INTERNATIONAL OLIVE COUNCIL

◀ it's labeled as such. (A 2011 study by the University of California at Davis Olive Center found that nearly three-quarters of top-selling imported brands failed to meet international standards for the extra-virgin designation.) "Italy makes some beautiful olive oils. But they have been riding on the coattails of the Greeks, buying olives from all over the Mediterranean and passing it off as Italian olive oil," says David Neuman, who heads the North American subsidiary of Athens-based **Gaea Products**. "This is the moment when Greece can recapture some of that market."

Gaea aims to do just that. Its chief executive officer, Aris Kefalogiannis, the son of a conservative political family from Crete, started a shipping logistics company before switching to olive products in the mid-1990s. He says Gaea logs about $14 million in sales annually and expects that to rise to $16 million this year.

The company has already made inroads in Germany and is pushing to boost sales in the U.S. In February it hired Neuman, who previously ran **Lucini Italia**, a Miami-based purveyor of Italian olive oils, vinegars, and pasta sauces. Gaea's packaging and branding have been revamped, with an emphasis on telling the story of Greece's traditional methods of making olive oil. The company is also adding more organic oils and packaged olives to its lineup. "Greece has the potential to be the organic grove of Europe," says Kefalogiannis.

In July, **Whole Foods Market** began selling Gaea's oils and olives at many of its stores in the Northeast. "Customers are more interested than ever in tasting new varietals and experimenting with new flavors," says Dwight Richmond, the company's global grocery purchasing coordinator. He and others compare olive oils to wines, suggesting that U.S. consumers could create a boom across all price ranges.

Gaea is a prime example of the "small-sized but dynamic" companies that Gregory Antoniadis, president of the Greek Olive Oil Packers Association, says are helping elevate the profile of what the poet Homer called "liquid gold." Other companies include **Eleia**, **Minerva Edible Oils Enterprises**, and **Agrovim**. Antoniadis's organization saw exports double from 2005 to 2012, and he expects them to double again by 2017.

"Greek producers can make some modest gains this year," says Dan Flynn, executive director of the UC Davis Olive Center. However, to make sustained progress, Greece's olive oil industry will have to overcome the lingering effects of droughts in 2012 and 2013 that stunted production, fend off the diseases devastating the Italian olive groves, and weather the financial crisis that is making credit scarce. Says Flynn: "One question is whether Greek olive oil can achieve the status of Kalamata olives and Greek yogurt among consumers." —*Paul Glader*

The bottom line Soaring prices for Italian and Spanish olive oil led to this year's 28 percent increase in U.S. imports of Greek oil.

E-Commerce

Going Up Against Big Carnation

▶ BloomNation gives florists artistic free rein and lets them set prices

▶ "We can tell them that yellow tulips are trending in Southern California"

"This is a slow time of year, but still we've been busy anyway," says Ray Le Du, standing in his Manhattan flower shop, Blue Water Flowers, trimming a shipment of tulips just in from the Netherlands. A glass-door cooler by the entrance is filled with velvety red charm peonies—a best-seller even at $12 a stem, says the florist, who almost lost his business during the recession when law firms, hotels, and other big clients stopped calling.

Le Du credits the uptick in orders to **BloomNation**, an online marketplace where customers can order arrangements from a network of independent florists. Shops such as Blue Water pay BloomNation a 10 percent fee for every sale. In exchange, BloomNation builds a store within its own website for each florist, dispatching a photographer to take pictures of sample arrangements. It also gives businesses tools to collect and analyze their sales data, including contact and order information for past customers.

BloomNation's 10 percent cut is less than half what **1-800-Flowers.com**, **Teleflora**, and **FTD** charge florists to process orders through their websites and call centers. These so-called wire services dominate the cut flower business, which has annual sales in the $7 billion to $8 billion range, according to the U.S. Bureau of Economic Analysis. Like fast-food franchises, Teleflora and 1-800-Flowers.com offer a standard menu of arrangements and require florists to sign contracts that commit them to buy certain types of flowers and vases and use design templates to build bouquets.

BloomNation's founders, Farbod Shoraka, David Daneshgar, and Gregg Weisstein, set out to create a different kind of e-commerce platform when they started the business in 2011—"an Etsy for flowers," in Shoraka's words. A University of California at Berkeley grad with an undergraduate degree in economics, Shoraka watched his aunt struggle to keep her flower shop open during the downturn. With a growing number of phone apps that allowed people to get just about anything delivered to their home direct from the source, he was surprised there wasn't already an equivalent service for the floral industry. "I could see there was something there to be optimized," he says.

Daneshgar, a 2008 World Series of Poker champion, put up $30,000 of his take plus some seed money he won in a competition for startups at the University of Chicago Booth School of Business, where he was getting his MBA. To test their concept, the trio set up a Facebook page and asked prospective vendors to upload photos of their floral

BLOOMNATION: JAN LIM; FLOWERS: ALAMY (14)

arrangements to a Dropbox folder. The three also traveled around the U.S. visiting florists and flower markets to pitch their idea. Within six months, they'd signed up 500 vendors.

The Santa Monica (Calif.) company now has a staff of 30 full-time employees and has raised $5.5 million in venture capital from Andreessen Horowitz and A Capital. (Bloomberg LP, which owns *Bloomberg Businessweek*, is an investor in Andreessen Horowitz.) Daneshgar says revenue is growing at a rate of 15 percent to 20 percent per month.

$8b

Estimated size of the U.S. cut flower market

Charlotte D'Costa Taylor, who owns Floral Heights in Brooklyn, N.Y., says she won't renew her five-year contract with Teleflora when it expires because she's happier with BloomNation. She pays 27 percent of each order to the wire service, plus anywhere from $250 to $300 a year in fees for promotions such as posters and seasonal vases. Teleflora doesn't share customer contact information with the florists who fill its orders, so D'Costa Taylor can't market to the people who have actually bought her arrangements. When she gets a wire service order, she can't be creative; she has to stick to the company's design template. She points to a Father's Day bouquet displayed on Teleflora's website: Carnations and alstroemeria stick up from a vase resembling a red convertible. It sells for $55. "This is so not us," she says.

D'Costa Taylor joined BloomNation three years ago after one of her employees saw its fan page on Facebook. She says she now gets more orders through BloomNation than the wire service and is able to set her own prices, which was one of BloomNation's biggest selling points when it was recruiting florists. Wire services usually set the prices for bouquets, with most arrangements on Teleflora going for $40 to $60, an amount D'Costa Taylor says doesn't usually cover the total cost of the product. BloomNation's bouquets start at about $60 and go for as much as $180. To help counter the sticker shock, the startup counsels its members to offer a few smaller, less expensive bouquets that will keep online customers browsing.

Along with marketing advice, the service gives florists access to data that may help them win more orders. "We can tell them that yellow tulips are trending in Southern California," Shoraka says. Since joining BloomNation, both Le Du and D'Costa Taylor say their online sales are up 10 percent every year and that they see more repeat customers. "What they're doing is bringing transparency to a very big, opaque market," says Ronny Conway of A Capital.

After focusing on developing their network of florists in Chicago, Los Angeles, New York, and other major cities, Shoraka, Daneshgar, and Weisstein are looking to break into the wedding and events planning market and trying to expand the company's network of florists into other U.S. cities. Shoraka also has visions that BloomNation could one day become a global enterprise: "The way we've built it, the platform is very scalable." —*Jennifer Chaussee*

Daneshgar, Weisstein, and Shoraka set out to create "an Etsy for flowers"

The bottom line Startup BloomNation charges florists less than half of what floral delivery giants do to process orders.

Finance

Insurance for the Agent-Averse

▶ **PolicyGenius caters to millennials who prefer to shop online**

▶ **"Like, why is this guy asking me all this stuff?"**

PolicyGenius, an online insurance brokerage, is chasing the kind of customer who would rather fill out a detailed profile on a website than open up to a total stranger. A 2014 Gallup poll found that millennials, born between 1980 and 2000, are more than twice as likely as other generations to buy their policies online as through an agent. Insurers "still expect folks to deal with a face-to-face agent, and that's just not how most people, particularly younger people, do things," says Jennifer Fitzgerald, who co-founded PolicyGenius with Francois de Lame. "It can feel very intrusive, like, why is this guy asking me all this stuff?"

Based in Brooklyn, N.Y., PolicyGenius sells life and disability insurance, along with policies that cover renters' possessions and pets. The site has logged 300,000-plus users since its inception in July 2014, according to Fitzgerald, who adds that more than half of customers are millennials. Visitors to the company's website select what type of coverage they want and how much, and are then asked to answer standard questions about their finances and health. Within a few minutes of submitting the application, the site returns quotes from some of the 26 different insurers that offer policies through PolicyGenius, including **AIG**, **ING**, **MetLife**, and **Prudential Financial**. Users can model different levels of coverage and cost by sliding a rule back and forth. Once a ▶

◀ final selection is made, PolicyGenius processes the paperwork and books a medical exam, if required. The startup earns commissions from insurers that are in line with industry standards, Fitzgerald says.

Fitzgerald, 37, and de Lame, 32, met in 2012 while working at McKinsey, where they did consulting work for some of the big insurers they now work with. The pair took a six-month leave of absence to draft a business plan. They didn't want to go head-to-head with established sites, such as Esurance, an **Allstate** subsidiary that sells auto and homeowner insurance online. After some digging, they discovered no independent online-only brokers specializing in life and disability coverage.

Fitzgerald and de Lame organized focus groups that revealed that people shopping for insurance want less face-to-face interaction and more unbiased advice. They also found that millennials felt the industry was out of step with the times. The average insurance agent in the U.S. is 59, according to a McKinsey report.

"Most life and annuity companies don't have a long track record of selling anything online," says Drew Aldrich, senior associate at **Axa Strategic Ventures**. The venture capital arm of the French insurer Axa participated in a $5.3 million funding round for PolicyGenius that closed in June, bringing the startup's total funding to $6.1 million.

Jim Kerley, chief membership officer of Limra, a trade group that represents the insurance industry, argues that there are factors besides a dislike of agents that explain why young adults are postponing the decision to purchase insurance. Millennials are waiting longer to start families than previous generations—a trigger event for those considering buying life or disability coverage. Twenty-six percent of the generation is married, compared with 48 percent of baby boomers when they were the same age, according to the Pew Research Center.

Kerley says a comparison-shopping site such as PolicyGenius could benefit the industry as a whole by clearing up some common misconceptions about the cost of policies. A recent study by Limra showed that millennials overestimate the cost of life insurance by 213 percent. "I think we'll see more companies in this space—especially if PolicyGenius gains momentum," says Matthew Wong, an analyst at CB Insights. —*Kate Rooney*

"Most life and annuity companies don't have a long track record of selling anything online."
—Drew Aldrich, Axa Strategic Ventures

The bottom line The website PolicyGenius sells policies from 26 insurers. More than half of its customers are millennials.

Media

Boosting Youngsters' Emotional IQs

▶ **The Mother Company's videos get kids in touch with their feelings**

▶ **"People in children's television told us that we'd never find an audience"**

As a working mom, Abbie Schiller relied on 30 minutes of television in the morning and the evening to keep her toddler occupied. There was plenty of programming that taught kids to count and spell, but the Los Angeles resident saw a void when it came to social and emotional learning. So Schiller, who was head of public relations for ABC Daytime, improvised. "My daughter was really into the Disney princess franchise," she says. "I would put my own spin on these stories—the stepmother would be misguided instead of wicked. I would use those stories as an opportunity to develop empathy and kindness instead of making judgments."

Schiller left ABC in 2007 to focus full time on creating videos and books that help kids cope with strong emotions, like jealousy and anger, and sticky situations, like getting lost. She and her husband, Marc Gordonson, a digital advertising executive, sold their house and moved in with her parents. She reached out to a former classmate, filmmaker Samantha Kurtzman-Counter, also a mom, for advice on how to produce her own videos. Kurtzman-Counter agreed to do the pilot.

The women began pitching parents at parks and friends' houses and raised $500,000 in six weeks, enough to make their first video, *The Feelings Show*. **Gap** signed on as a sponsor and held a special in-store promotion for the launch. Schiller and Kurtzman-Counter formed the Mother Company in 2010 and have since released four videos (download $12.99, DVD $14.99), 10 picture books that reinforce lessons from the shows ($12.95 each), and an iPhone app (99¢). The titles are sold through the company's website, as well as on **Amazon.com**, on iTunes, and at more than 1,000 stores.

The Mother Company's 45-minute videos tackle issues such as sibling rivalry and safety through a combination of **animated sketches**, segments with live actors, and music videos. An animated sketch on overcoming frustration is narrated by Mel Brooks, whose son went to high school with Schiller and Kurtzman-Counter. Some TV shows, such as *Sesame Street*, cover similar territory. But Mother Company videos are already among the strongest in the social and emotional learning category, says Seeta Pai, vice president for research at Common Sense Media, a nonprofit that rates kids' media. Common Sense gave all four videos its highest rating.

Schiller says after she drafted her initial business plan, she met with three investors; each offered her $2 million in exchange for control of her concept. She turned them down: "My intuition was telling me, 'Get away from these people. They don't have the company's best interest at heart.'" Instead, the co-founders recruited 23 angel investors, almost all mothers, willing to chip in from $6,000 to more than $2 million, for a total of about $5 million.

The company has had double- and triple-digit revenue growth every quarter, its books are sold in nine countries, and the partners say they're in talks with the Public Broadcasting Service about national syndication of video content, according to Schiller. She's exploring partnerships with larger companies to expand the company's distribution network and digital presence, but she has no intention of handing over the reins. "When we started, people in children's television told us that we'd never find an audience for our show—that it was too educational," Schiller recalls. "That everything had to be animated, that we shouldn't use big words like 'frustrated' for preschoolers. Thankfully, we didn't listen to any of that." —*Karen Angel*

The bottom line The Mother Company has seen double- and triple-digit revenue growth from its kids' videos, books, and iPhone app.

COURTESY THE MOTHER COMPANY

Small to Big

Sky Zone

"We charge people to jump," says Jeff Platt, **Sky Zone** co-founder and chief executive officer, of the trampoline parks franchise business he started with his father, Rick. Customers pay by the half-hour to don orange socks and bounce at one of Sky Zone's 107 locations. That's a lot simpler than the original plan—to create a professional sport that mixed football, hockey, and basketball played on trampolines. It didn't take off, so the Platts converted their Las Vegas training facility into a place where kids (and adults in touch with their inner child) could jump around.
—*Interview by Kate Rooney*

Founded	2004
Location	Las Vegas
Employees	13,680

Revenue	
2009	$2.2 million
2010	$3.3 million
2011	$15.8 million
2012	$50.6 million
2013	$88.1 million
2014	$167.6 million

Injuries do happen. A trampoline, like any other activity, involves risk. We've been in business over 10 years and had well over 20 million people jump. We've learned from that experience on how to mitigate risk. It's never something we're satisfied with. We have an insurance company, we have a vice president of risk management, but no in-house legal.

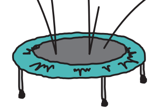
We've added dodgeball, foam pits, and the ability to slam-dunk a basketball, and we do birthday parties, fitness classes, and after-school programs. We're opening spots in the U.K., Saudi Arabia, Kuwait, and New Zealand this year.

I don't like the word "exercise" because it makes it feel like we're a gym. We're not a gym. We're about promoting movement and expression through movement. You're coming for that sense of freedom you feel when you're 5 to 7 feet in the air, you're flying, and that's the coolest feeling in the world. You don't have to be an athlete, you don't have to be in shape to jump on a trampoline. But you're getting a really good workout.

The first location was really meant to be a training ground for a new sport—there was a big court and some lockers. When we opened it up to the public, our bathrooms weren't up to code. We didn't have party rooms. So the space morphed over time.

If you're opening a pizza shop, you can find consultants who have opened pizza shops before. They can give you an equipment layout, they can give you your systems and your marketing tools. No one had ever done that for a trampoline park. We had to invent the equipment.

The socks have become a really big part of our brand. I was wearing them once in an airport, and a security guard looked at my socks and said, "Oh, you go to Sky Zone?"



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Capital One
You are meticulous about every
DETAIL IN YOUR BUSINESS.
But are you missing some cash back from your
BUSINESS CREDIT CARD?
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BUSINESS
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Own a business credit card that meets your high standards.
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ARE LAWYERS GETTING DUMBER?

YES, SAYS THE WOMAN WHO RUNS THE BAR EXAM

BY NATALIE KITROEFF

PHOTO ILLUSTRATION BY MEREDITH JENKS


Law School
DUMMIES
Law
DUMMIES

Last August, the tens of thousands of answer sheets from the bar exam started to stream into the National Conference of Bar Examiners. The initial results were so glaringly bad that staffers raced to tell their boss, Erica Moeser. In most states, the exam spans two days: The first is devoted to six hours of writing, and the second day brings six hours of multiple-choice questions. The NCBE, a nonprofit in Madison, Wisc., creates and scores the multiple-choice part of the test, administered in every state but Louisiana. Those two days of bubble-filling and essay-scribbling are extremely stressful. For people who just spent three years studying the intricacies of the law, with the expectation that their $120,000 in tuition would translate into a bright white-collar future, failure can wreak emotional carnage. It can cost more than $800 to take the exam, and bombing the first time can mean losing a law firm job.

When he saw the abysmal returns, Mark Albanese, director of testing and research at the NCBE, scrambled to check his staff's work. Once he and Moeser were confident the test had been fairly scored, they began reporting the numbers to state officials, who released their results to the public over the course of several weeks.

In Idaho, bar pass rates dropped 15 percentage points, from 80 percent to 65 percent. In Delaware, Iowa, Minnesota, Oregon, Tennessee, and Texas, scores dropped 9 percentage points or more. By the time all the states published their numbers, it was clear that the July exam had been a disaster everywhere. Scores on the multiple-choice part of the test registered their largest single-year drop in the four-decade history of the test.

"It was tremendously embarrassing," says Matt Aksamit, a graduate of Creighton University School of Law, who failed Nebraska's July bar exam last year. "I think a lot of people can relate to what it's like to work hard for something and fall short of what you want." (Aksamit took it again in February and passed.)

Panic swept the bottom half of American law schools, all of which are ranked partly on the basis of their ability to get their graduates into the profession. Moeser sent a letter to law school deans. She outlined future changes to the exam and how to prepare for them. Then she made a hard turn to the July exam. "The group that sat in July 2014 was less able than the group that sat in July 2013," she wrote. It's not us, Moeser was essentially saying. It's you.

"Her response was the height of arrogance," says Nick Allard, the dean of Brooklyn Law School. "That statement was so demonstrably false, so corrosive." Allard wrote to Moeser in November, demanding that she apologize to law grads, calling her letter "offensive" and saying that the test and her views on the people who took it were "matters of national concern." Two weeks later, a group of 79 deans, mostly from bottom-tier schools, sent a letter asking for an investigation to determine "the integrity and fairness of the July 2014 exam."

Moeser wasn't swayed. She responded in December, saying she regretted offending people by characterizing the students as "less able"—but maintained that they were relatively bad at taking the exam. In January, Stephen Ferruolo, the dean of the University of San Diego School of Law, asked Moeser to explain how the NCBE scored the test. Moeser rebuffed him, instead inviting Ferruolo to consider the decline in his students' Law School Admission Test scores in recent years, which, she wrote, "mark the beginning of a slide that has continued." The implication: Ferruolo and the rest of the people running law schools not named Stanford or Harvard should get used to higher fail rates.

"The response is to stonewall," Ferruolo says. "Where's the accountability? I'm not looking to find more information so I can attack the NCBE. I am looking for more information so I can do my job as a dean."

This year's results, which will start coming out in September, may be the most critical in the exam's history. Lawyers and those who hope to join their ranks will soon know if last year was an aberration or a symptom of a worsening problem. Critics of the bar exam say the test is broken, while Moeser maintains the reason so many students are failing is that they are less prepared. "You can squawk loud and long about what's happening," Moeser says, "but you've got to look at who your student body is."

Whether or not the profession is in

"YOU CAN SQUAWK LOUD AND LONG ABOUT WHAT'S HAPPENING, BUT YOU'VE GOT TO LOOK AT WHO YOUR STUDENT BODY IS"

crisis—a perennial lament—there's no question that American legal education is in the midst of an unprecedented slump. In 2015 fewer people applied to law school than at any point in the last 30 years. Law schools are seeing enrollments plummet and have tried to keep their campuses alive by admitting students with worse credentials. That may force some law firms and consumers to rely on lawyers of a lower caliber, industry watchers say, but the fight will ultimately be most painful for the middling students, who are promised a shot at a legal career but in reality face long odds of becoming lawyers.

As the controversy raged on into this spring, Moeser's detractors seized on an irony of her résumé. Wisconsin is the only state that doesn't require its local graduates to take the bar exam in order to practice law. Moeser never sat for it. "The person who is the czarina, who determines more and more every year what Americans have to learn to pass the bar to become licensed lawyers … never took the bar," Allard says. "Who is she to say what the standard is? Who is she?"

From a conference room in Madison, Moeser watches a thick layer of smoke on the horizon, traces of a fire raging in Canada. It's early July, the start of her annual high season, when the NCBE sends the first copies of the bar exam to state officials across the country. After a moment her gaze shifts to her assembled employees, asking them how the day is going. She has more imminent threats to consider.

Moeser is warm and intimidating at the same time, speaking slowly and pausing to stare at the person she's talking to, like a pitcher guarding against a stolen base. She's wearing a denim shirt decorated with "NCBE" in gold stitching.

After graduating from the University of Wisconsin Law School in 1975, Moeser took a job at the state bar, partly because she had just given birth to her first son, she says, and the organization promised flexibility for its first nonsecretarial female employee. For 17 years, she administered the Wisconsin bar exam for out-of-state grads. In 1994 she moved to the national level, taking over the NCBE. "It's an irony that I got to do this and I personally have never taken the bar exam," Moeser says.

Her eyes shift to the ceiling when considering the hits the test has taken over the past year. Those arguments are like clay pigeons, she says: "You shoot them and they splinter, but the fact is, they are going to get up there and get some attention."

In a typical year, about 50,000 people take the exam, which is created by a team of academics, judges, and lawyers that the NCBE enlists as volunteers. The organization itself has about 85 employees, including a team of Ph.D.s who spent their time in graduate school on the unenviable mission of studying standardized tests.

Sample questions on the NCBE's website ask whether a hypothetical lawsuit is destined to fail or why a company's courtroom strategy is bogus. One particularly intense problem concerns a father who killed his crack-addicted son and whether he should be allowed to argue self-defense in court. State bar associations score the essays, while the multiple-choice answers are routed back to Madison for Moeser's organization to grade.

Moeser says underqualified law grads don't deserve to pass the bar just because they earned a J.D. Her role, she says, is to protect consumers. "Would most people say, 'Oh, we ought to lower the standards so we can have more pediatricians?' You'd say, 'Not with my baby, you can't,'" she says.

The July 2014 exam was controversial even before the results came in. On Tuesday, July 29, after spending the first day of the exam furiously writing, some law graduates who tried to upload their essays were met with error messages. The software that thousands of test takers used for the exam in 43 states had failed. The malfunction was dubbed "barmageddon" and "barghazi" online.

Students spent hours frantically trying to load their

MOESER

FROM TOP: PHOTOGRAPH BY MEREDITH JENKS FOR BLOOMBERG BUSINESSWEEK; MOESER: PHOTOGRAPH BY RYAN LOWRY FOR BLOOMBERG BUSINESSWEEK; FRAME: ALAMY

essays into the system, and several states had to push back the deadline. Students took to Twitter (after leaving their testing rooms) in all-caps cries for help that ranged from cutesy to apoplectic. ExamSoft, the software maker, ultimately settled with graduates who brought a class action against the company and agreed to pay each member of the class $90. ExamSoft declined to comment for this article.

One of the first steps in evaluating the exam is comparing this year's results with those of previous aspirants'. The NCBE looks at how the graduates performed on several questions that have appeared on previous exams. If the current test takers did worse, that's a sign that previous cohorts would have done better on the test overall than the current group. The NCBE converts raw results into scaled scores based on that process.

When the 2014 results came in, pass rates were down across-the-board in states that used the software and those that didn't. Deborah Merritt, a law professor at Ohio State University, is convinced that the tech problems are partly responsible for the low scores. "You can't explain that big a gap with the quality of students," she says.

Merritt says the process punished last year's test takers. She contends that the glitch skewed the curve, because people in several states may have done worse on certain questions after they spent a night in panic. "If you give one exam where people sit down and another where they stand up for six hours, of course the results will be different," she says.

Moeser won't even entertain that analysis, which she calls baseless. "I am not in a position to spend time analyzing results for which I lack respect," she says. "We're not in the blogging business."

Besides, Moeser says, there will always be people who deal with stress better than others. The questions about ExamSoft did pique the interest of her test director, Albanese, who wrote in a June publication of the organization's magazine that "the glitch cannot be ruled out as a contributing factor."

"The problem I have is the complete denial on the part of the NCBE that this is a possibility worth considering," says Jerome Organ, a law professor at the University of St. Thomas at St. Paul (Minn.) who studies bar pass rates. "It's hard to acknowledge a mistake. It's really hard to acknowledge one when you're claiming to be the experts and your credibility and cachet depend on it."

Since 2008 partner earnings at firms of all sizes have decreased 9 percent in constant dollars, according to federal tax filings. Solo practitioners have been struggling for much longer. Since 1988 earnings for standalone attorneys, of which there are about 354,000 nationally, have declined 31 percent. The legal industry has shed more than 50,000 jobs in the past eight years. The decline began decades ago. Solo practitioners began floundering in the late 1980s. Their average income, adjusted for inflation, was $71,000 in 1988; it was $49,000 in 2012.

Even as business was tanking for a lot of lawyers, American law schools happily welcomed more students. In 1987 there were 175 accredited American law schools. By 2010 there were 200, and after steadily increasing for years, enrollment peaked at 52,000 that year. "There was willful ignorance in what was going on," says Benjamin Barton, a law professor at the University of Tennessee at Knoxville and author of a recent book on the profession, *Glass Half Full*.

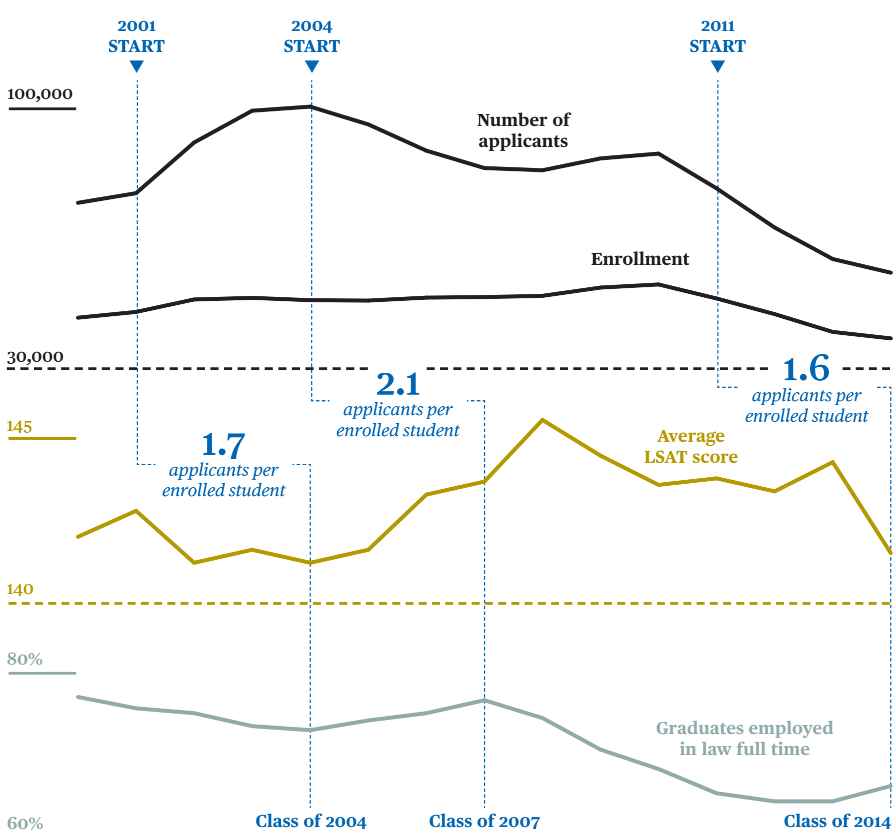
When Wall Street imploded in 2008, law schools soon took a hit. Hearing that there weren't enough jobs for all fresh J.D.s, college grads abruptly turned away from the profession. In 2014 enrollments reached their lowest level in four decades. In 2015 fewer people are expected to apply to law school than at any point in the past 15 years. "There was a heyday, and it's now enduring a correction," Moeser says. The trouble arises when the people running law schools try to intervene in that correction, she says. "The economics that are driving law schools are scary."

Big law firms say shrinking law school classes and less qualified graduates haven't cut into their talent pool. Boutique shops might not be so fortunate, says Tom Henry, the vice chair of Willkie Farr & Gallagher's Professional Personnel/Legal Recruiting Committee. "It may further constrict those smaller firms' ability to compete for the same type of business," he says.

Young people's aversion to law school is a natural reaction to a saturated job market, says Jim Leipold, the executive director of the National Association for

LOWERING THE BAR

APPLICANTS, TEST SCORES, AND EMPLOYMENT ARE DOWN



DATA: THE LAW SCHOOL ADMISSION COUNCIL; AMERICAN BAR ASSOCIATION; NATIONAL CONFERENCE OF BAR EXAMINERS; NATIONAL ASSOCIATION FOR LAW PLACEMENT. LSAT SCORES RANGE FROM 120 TO 180. AVERAGE LSAT SCORES 2010-2014 INCLUDE ONLY EACH TEST TAKER'S HIGHEST SCORE.

"YOU'VE GOT THIS UNDERCLASS IN LAW SCHOOLS WHO ARE REALLY KEEPING THE LIGHTS ON BUT NOT REAPING THE BENEFIT"

Law Placement, which tracks employment outcomes for recent law grads. "There was definitely an oversupply of law students," Leipold says.

On the day the first exams are leaving her fiefdom in July, Moeser wants to talk about the LSAT, the law school entrance exam. She pulls out a magazine page. "This is my favorite chart." One axis shows the change in law students' LSAT scores at the 25th percentile since 2010, meaning the people who were at the bottom quartile of test takers. Most schools have seen scores at that strata decline. The other axis shows change in enrollment over the same period. Almost every school has lost students, as fewer and fewer young people apply. Some places, Moeser suggests, are dropping their standards dramatically in the interest of stemming that tide. "Feast your eyes on New York," she says, flipping to a table that has the scatter plot's data. Her finger lands on Brooklyn Law School, where Allard, her loudest critic, runs the show. In five years the bottom quartile of Allard's students saw test scores drop 9 points—a steeper decline than at 196 other law schools.

In a pinstriped charcoal suit and purple tie, Allard is the most formally dressed person in the classroom. Eighteen Brooklyn Law students are here for a special course to guide them through summer jobs at law offices. One student volunteers that she failed to finish an onerous one-day assignment to summarize a deposition hundreds of pages long. "How did you sleep that night?" Allard asks. Just fine, the student responds, not understanding his implication. "Well, maybe that's a bad thing," the dean mutters.

Brooklyn Law opened in 1901 as a night school for working-class strivers, but it's become a full-time, standalone school and earned a solid reputation. Allard and his allies say the most recent bar exams are stacked against some of their students. "We live in a society where there is an increasing gap between the rich and the poor," says Ferruolo, the dean at San Diego. "We worsen that by this system that puts more and more emphasis on a testing regime which is biased." The bias, he suggests, stems from the common practice of bar applicants spending as much as $4,000 on cram courses. Less well-off graduates, already burdened by tuition loans, can't spend as much time or money preparing for the exam—and end up doing worse.

PHOTOGRAPH BY MEREDITH JENKS FOR BLOOMBERG BUSINESSWEEK

When fewer people pass the exam, Allard says, poor and working-class Americans suffer in another way: "Most people in America can't afford lawyers. Most small businesses can't afford lawyers. The biggest cause of that is that there are too few lawyers being produced." The bar exam, he says, "perpetuates the status quo in a way that keeps qualified, motivated people from becoming lawyers and deprives most people of affordable legal services."

Paul Campos, a professor at the University of Colorado Law School and author of the 2012 book *Don't Go to Law School (Unless)*, cannot suppress a laugh when presented with that logic. "There's a shortage of lawyers in this country the same way that there's a shortage of Mercedes-Benzes," he says. "There are many people who want them who don't have them." He predicts that pumping out more J.D.s will only lead to more under- or unemployed attorneys.

That's part of why Moeser says schools should take their students' professional prospects into account long before they take the bar. The problem, she insists, isn't that her test discriminates but that law schools looking to put butts in seats are lowering their standards. In the process, she says, they create false expectations. "You've got this underclass in law schools who are really keeping the lights on but not reaping the benefit." Moeser expects the reckoning to continue. "I would anticipate the scores will drop again, if I had to guess," she says, her mouth drawing a straight line across her face. "I don't anticipate a rebound." B

Brooks in
his New York
office

DR. FEELGOOD AND THE CLUB DRUG CURE

Is ketamine the best hope for curing major depression?

By Caroline Winter

Photographs by Kevin Shea Adams

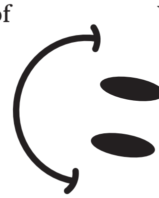
On the seventh floor of a building overlooking the Federal Reserve Bank in lower Manhattan, two medical clinics share an office. One is run by a podiatrist who's outfitted the waiting room with educational materials on foot problems such as hammer toes and bunions. The other clinic doesn't have pamphlets on display and offers a much less conventional service: For the advertised price of $525, severely depressed and suicidal patients can get a 45-minute intravenous infusion of ketamine—better known as the illicit party drug Special K.

Glen Brooks, a 67-year-old anesthesiologist, opened NY Ketamine Infusions in 2012. "At least eight or nine of my patients have ended up making appointments with the podiatrist," he says. "But I haven't gotten any patients through him—I don't know why." Not that Brooks is lacking for business. He typically treats 65 patients a week. Most come in for an initial six infusions within a span of two weeks, then return every six to eight weeks for maintenance sessions. To keep up with demand, he often borrows rooms from the podiatrist on weekends so he can treat eight patients at once. His only help is a secretary at the front desk.

Patients don't need a prescription, but not just anyone can get an appointment. "You have to have the right story," Brooks says. "For ketamine to work, there needs to be some preexisting brain damage caused by post-traumatic stress. I'm looking for some indication of childhood trauma. If not overt pain, then fear, anxiety, loneliness, low self-esteem—or bullying, real or perceived." Patients receive a low dose of the drug: about one-tenth of what recreational abusers of ketamine take or about one-fifth of what might be used as a general anesthetic.

During the infusions, which are gradual rather than all at once, patients often experience strange sensations, such as seeing colors and patterns when they close their eyes. "The first time, I had a sense that the chair was rocketing upwards, just on and on and on…a kind of weightlessness," a patient from a different clinic explains. The 51-year-old environmental engineer and university lecturer, who asked to remain anonymous for professional reasons, credits ketamine with reviving him from a near-catatonic depression. "During the treatment, I got this profound feeling of optimism," he says. "I told my family it's like getting hit by the freight train of happiness—they tease me about that now."

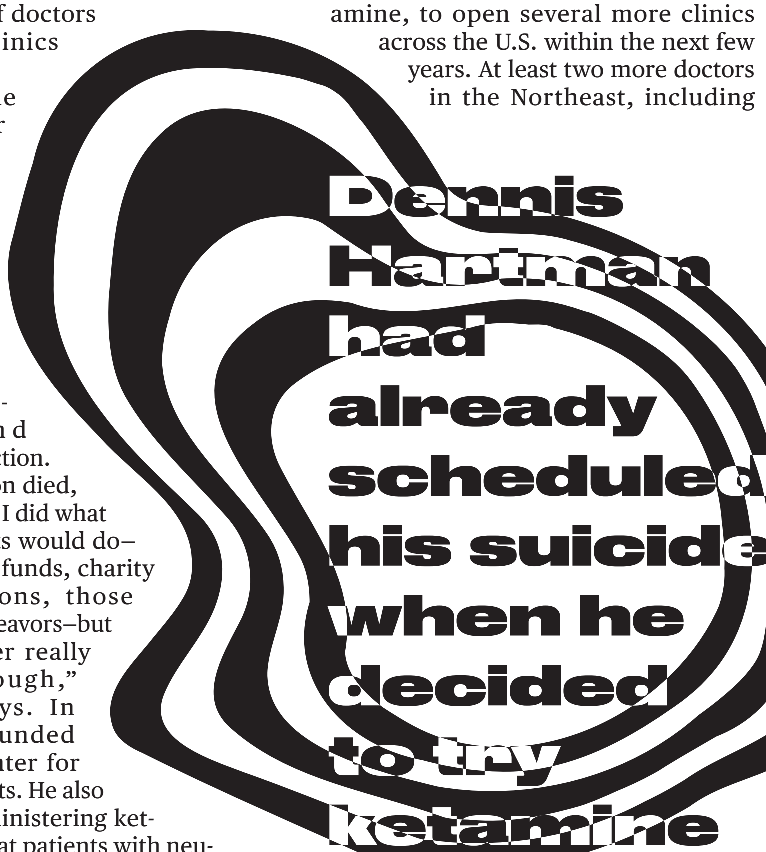
Brooks, who's about 5-foot-7, with kind brown eyes, gray hair, and a melancholic bedside manner, is among the first of a wave of doctors opening clinics specializing in ketamine infusions for depression. In 1999 one of his seven children committed suicide after battling depression and heroin addiction. "After my son died, my wife and I did what most parents would do—scholarship funds, charity organizations, those kinds of endeavors—but it was never really quite enough," Brooks says. In 2011 he founded a detox center for opiate addicts. He also started administering ketamine to treat patients with neuropathic pain. That led to calls from psychiatrists asking whether he'd treat their suicidal patients as well. "When I heard about the [therapy], I thought, Wow, this is exactly what I need to do," he says.



The U.S. Food and Drug Administration hasn't approved ketamine for the treatment of mood disorders, but dozens of medical studies show that it can quickly alleviate severe depression. There's no regulation to stop doctors like Brooks from administering ketamine for nonapproved uses—a practice known as "off-label" treatment—but insurers typically don't cover it.

Over the past three years, Brooks has treated about 700 patients, some who've traveled from as far away as Saudi Arabia, the Philippines, Israel, and Europe. He gets six to 10 daily inquiries from potential patients online. Of those Brooks treats, he estimates that about 70 percent show improvement. "For patients who are suicidal—and probably half of my patients are—they can get relief within an hour or two," he says. "For patients who aren't suicidal, it's a little more subtle. It could be six to eight hours."

Brooks plans to hire nurses and move into a bigger, private office this winter. He's also working with Kyle Lapidus, a professor of psychiatry at Stony Brook School of Medicine who studies ketamine, to open several more clinics across the U.S. within the next few years. At least two more doctors in the Northeast, including psychiatrist Keith Ablow—a frequent Fox News guest known for making inflammatory remarks about everything from Michelle Obama's weight to transgender people—have opened clinics and plan to launch chains and physician networks.



Dennis Hartman had already scheduled his suicide when he decided to try ketamine

Meanwhile, pharmaceutical companies, which can't make money off generics such as ketamine, are spending millions to develop patentable derivatives and analogues. While they press ahead, some in the medical community have criticized doctors who use ketamine off-label, arguing that not enough is known about long-term effects. "They say we're

ILLUSTRATIONS BY 731

in it for the money," Brooks says. "I just wish everyone would stop trashing ketamine and let those of us offering this treatment do our jobs without feeling like charlatans or something."

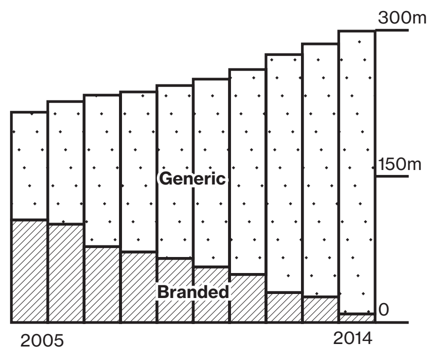
Ketamine was first developed in 1962 as a fast-acting anesthetic. It's still used widely in operating rooms and for pain management. Beginning in the 1970s ketamine became popular as a recreational drug, known for putting users in a "K-hole," likened to an out-of-body, near-death experience. In 1999 the U.S. Drug Enforcement Administration banned nonmedical uses for ketamine and designated it a Schedule III controlled substance, alongside drugs such as testosterone and anabolic steroids, meaning that it has moderate to low potential for physical or psychological dependence.

Around the same time, researchers at Yale, including Dennis Charney, who's now dean of the Icahn School of Medicine at Mount Sinai, stumbled upon the drug's promise as a mood stabilizer. They'd set out to study how depression is affected by glutamate, a neurotransmitter essential for brain functions including memory, learning, and the regulation of emotions. To do so, they gave seven clinically depressed patients ketamine, which is known to block certain glutamate receptors in the brain. "We were not thinking at the time that ketamine would be an antidepressant," Charney says. When patients started reporting that they suddenly felt better, the scientists were surprised.

The group's findings, published in *Biological Psychiatry* in 2000, were largely ignored. The study was tiny, and because of ketamine's reputation as a party drug, scientists were reluctant to follow up. "They didn't believe you could get better from depression in a few hours," Charney adds. "They'd never seen that before." Standard antidepressants such as Prozac and Wellbutrin take weeks or months to kick in. As many as 30 percent of depressed patients don't respond to conventional antidepressants, according to the National Institute of Mental Health.

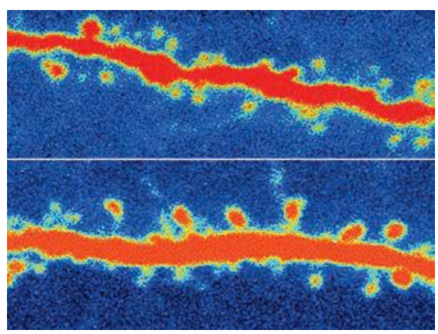
Six years later, Charney, who'd gone on to work for the National Institutes of Health, initiated a replica study with 17 patients. "This was a population that had failed on average six different antidepressants, and some had also failed electroconvulsive therapy, which is generally regarded as a treatment of last resort," says Husseini Manji, one of Charney's co-authors, who's now the global head of neuroscience for Janssen Research & Development, a Johnson & Johnson company. Within a day of getting one ketamine infusion, 70 percent of the

Antidepressants Prescriptions on the Rise



GENERIC CATEGORY INCLUDES BRANDED GENERICS; DATA: IMS HEALTH

Ketamine's Impact on the Brain

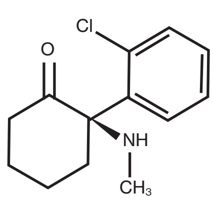


Yale researchers say ketamine restores synaptic connections. Here, a rat neuron before (top) and after treatment.

Slightly Different Drugs

Ketamine contains two molecules that are mirror images of one another, arketamine and esketamine

Janssen has patented esketamine and says it's 20 percent more potent than esketamine and arketamine combined



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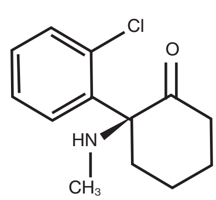


esketamine

subjects went into remission. Since then, scientists at institutions including Yale, Mount Sinai Hospital, and Baylor College of Medicine have performed dozens more studies that corroborate the findings. Additional studies show that ketamine works by producing long-lasting changes in the brain, reversing neural damage caused by stress and depression and potentially decreasing inflammation and cortisol levels.

"It's settled—to my mind beyond a shadow of a doubt—that ketamine has a powerful antidepressant effect for as many as 50 percent of people where other medications haven't been helpful," says Michael Thase, a professor of psychiatry at the University of Pennsylvania who's consulted for various drug companies developing ketamine-like products.

The FDA's approval of ketamine for depression hinges on multiphase clinical studies, which are unlikely to happen. Pharmaceutical companies usually pay for clinical trials and can't make money off a decades-old generic drug. "You can get a few years of exclusivity for a new use, but generally you need more than a few years to recoup the research and development costs of bringing a drug to market," Thase says.

Instead, companies are spending millions to develop similar, patentable drugs. Janssen is seeking approval for a nasal spray made from esketamine, a variation of the ketamine molecule that's about 20 percent more potent, says Manji. The spray could come on the market in a few years. Cerecor, based in Baltimore, is developing a pill that replicates ketamine's effects. In June, the startup filed to go public and raise as much as $31.6 million. Pharmaceutical giant Allergan spent $560 million in July to acquire Naurex, an Illinois-based biopharmaceutical company whose main products are two clinical-stage ketamine-like drugs called rapastinel and NRX-1074. Both are designed to modulate the same receptor as ketamine, alleviating depression without inducing hallucination.

One of Brooks's early patients, Dennis Hartman, had already scheduled his suicide when he decided to try ketamine. At 46, Hartman had excelled professionally, working as a management consultant at Arthur Andersen and Deloitte before becoming president of a gaming company called Accel Entertainment. But he'd been masking depression for more than 30 years. "I became a good actor," he says. "I never

NEURONS: COURTESY GEORGE AGHAJANIAN AND RONALD S. DUMAN

revealed to anyone the degree of my childhood abuse or my dysfunction."

Hartman tried more than 15 antidepressants, none of which worked. He never married and mostly kept to himself. "When I would get social invitations, I would say, 'Thanks, but I'm already busy,' " he says. "Really I was hiding at home because I needed to repair myself so I could get out of bed the next morning." Eventually, Hartman decided that ending his life was the most humane option. Hoping to mitigate the trauma for his family, he set the date a couple of months into the future so a young relative could finish the school year.

"We believe we can double the income of the average family physician or internist"

Levine in one of his treatment rooms in New Jersey

On Oct. 26, 2012, at 3:15 a.m.—he still remembers the exact time—Hartman stumbled upon a news story about the benefits of ketamine. He then found that the NIH was enrolling patients in a study on the drug. "In the middle of the night I sent them an e-mail," he says. Days later, he found himself in a hospital in Bethesda, Md., hooked up to an IV drip. "It was the moment of my life," he says. "Within a few hours I could tell that my anxiety and depression were completely gone for the first time in my memory."

After participating in the study for two months, Hartman found himself without access to ketamine. He contacted Brooks. "I do relapse—pretty much everyone does—though I haven't had a single suicidal impulse since my first infusion," Hartman says. "My baseline levels of misery and impairment aren't as bad…and I can view my symptoms as symptoms—they don't send me back under the covers."

Hartman is now a ketamine evangelist. He doesn't have a job and lives off savings so he can focus on running the Ketamine Advocacy Network, a clearinghouse for research, media coverage, and clinics. He knows of 30 clinics in operation throughout the U.S. and

estimates there are at least 20 more that don't advertise.

Doctors running the clinics are typically either psychiatrists or anesthesiologists. Prices for a single infusion range from $300 to $1,000 and often aren't covered by insurance. It depends on the dispenser and how they characterize the treatment. But for many customers, a lack of insurance isn't a deal breaker. "If I had to go work a second job to pay for this, I would," says Tamara Hartley, a 55-year-old accountant who struggled with treatment-resistant depression until she found ketamine. "Before, my life wasn't a life—and I'm not going back." She pays $700 for each monthly maintenance session. Some academic centers, such as Yale, offer ketamine infusions to a small number of patients outside of studies, which are generally covered by insurance.

Steven Levine, an energetic, dapper, 37-year-old psychiatrist based in New Jersey, opened the Ketamine Treatment Centers of Princeton in 2011 before he knew of anyone else offering the treatment. "When I read the ketamine studies, they blew my mind. They almost spun my head around," he says. "I decided I need to start using this even if other people aren't—I can't talk myself out of it, it makes too much sense."

After researching the drug and consulting anesthesiologists about safety and dosing, Levine started treating patients from borrowed space at a local hospital. In March he hired an oncology nurse and opened a private treatment center outside downtown Princeton. The space is designed to be tranquil—Levine says patients respond best that way—with abstract paintings on the walls. Patients often bring their own headphones and listen to their choice of music, anything from James Taylor to electronic artists like Shpongle. Levine spends time talking with patients before and after their infusions and bills them $450 for an extended psychiatry visit. He sees around 35 patients each week. He plans to open a second clinic, in Baltimore, next year, followed by a third in Philadelphia.

"For most people, ketamine does not induce happiness, and I always clarify that ahead of time," he says. "Don't expect to wake up tomorrow with a bluebird on your finger." Instead of euphoria, patients tend to experience a lifting of their depressive symptoms and a gradual improvement with each successive dose. They report having an easier time with basic tasks like getting out of bed, brushing their teeth, or taking a shower. Some continue taking other mood stabilizers. Of course, it doesn't work for everyone. "When it works, it's tremendous, it's wonderful," Levine says. "When it doesn't, it's heartbreaking."

Pharmaceutical companies tend to categorize the dissociative effect of ketamine as an unwanted side effect. But Levine—along with many other researchers exploring the promise of psychedelics in battling depression—argues that the hallucinations are likely harmless and may even be helpful. "Ultimately, it's a dreamlike experience," he says. "We don't tell people not to sleep because they might dream." Later this year, Levine plans to begin a study to evaluate whether patients who experience a stronger dissociative effect during ketamine infusions have better outcomes.

Some academics, including Charney of Mount Sinai, have concerns about ketamine clinics run by doctors prescribing the drug off-label. "They're getting a little bit ahead of the science," he says. "They're kind of working on their own algorithms on how to maintain the response—and not in a controlled research setting." Levine and Brooks dispute the claim that the science on ketamine is insufficient. The drug, Brooks points out, has long been used for anesthesia and pain management, at far higher doses, with no evidence of side effects. "I've been working with ketamine for 40 years. I know this drug," he says.

Ablow, who runs a ketamine clinic in Boston and bills himself as "America's most well-known psychiatrist," is charging ahead. Instead of opening freestanding clinics, his fledgling company, Neuragain, hopes to raise $1 million from investors this summer to start a network of "250 to 500" doctors who will offer ketamine treatments as a side business.

"We believe we can double the income of the average family physician or internist," Ablow says. Neuragain, he explains, will keep up to 40 percent of the profits in exchange for providing marketing material, a physicians network, and a call center that will handle administrative tasks. "There are millions and millions of depressed people who can benefit," says Ablow, who anticipates that a series of six sessions will cost patients $3,000. "We're treating everyone from cashiers to CEOs, because when you're depressed, $3,000…turns out not to be an impediment for the vast majority of people who have relatives who can help, health savings accounts, or who can otherwise procure the money or use a credit card, for that matter."

Brooks almost went into business with Ablow five years ago but changed his mind. They remain good friends, but Brooks is concerned that Ablow's plan isn't right for patients. "This is 24/7 stuff—not something you can do on the side," he says. "Unless you can do this full time and keep up with the literature, with the paperwork, the demands, you'll never understand these patients. You'll never really know what you're doing."

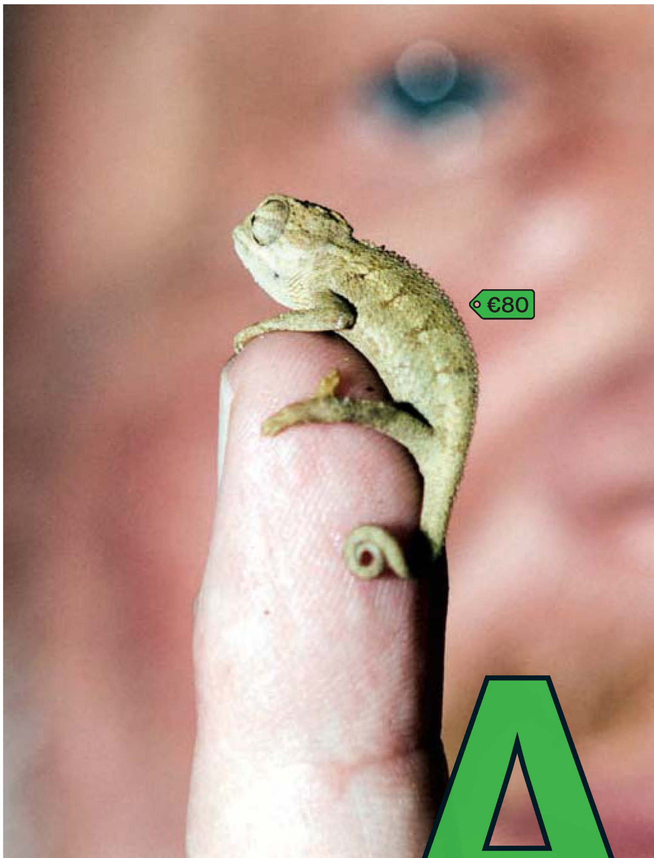
Brooks acknowledges that ketamine treatments can go wrong and that patients risk winding up with shoddy care. "Nobody in Florida knows what they're doing," he says, by way of example. That assessment is based on a patient who got a ketamine infusion from a family physician while she was on holiday. "It was a friggin' disaster," he says. "The dose was too high, it was going in too fast, she started to get hysterical. Meanwhile, the doctor is calling me asking what to do."

On a Monday night in July, Brooks is seated on a leather chair in his cramped, windowless office. The wall is hung with diplomas, scientific diagrams, and a landscape print from Santa Fe, N.M. His bookshelf is filled with gifts, including books, a Slinky, and the knob of a 1965 Fender guitar. "Somebody brought me a cucumber from her garden last Sunday," he says, pointing to the shriveled vegetable. "I didn't quite know what to do with it, so it's been kind of shrinking and looking less like a cucumber."

Brooks's patients range in background, but most are in their 30s and 40s. "Many people who suffer post-traumatic stress become overachievers," he says. "They become very successful, rise very quickly, and then crash. They manage to get maybe to their early 40s, and then everything caves in." About 20 percent of his patients are artists—writers, actors, musicians, and painters. "I get people who come in and say they haven't picked up a paintbrush in three years, and after one ketamine treatment they're up painting all night," he says.

These days, Brooks is too busy to do much besides work. Recently, he treated a 16-year-old girl who'd been struggling with suicidal thoughts since she was 8. "She'd been hospitalized multiple times, self-mutilating, covered with scars," he says. After one ketamine infusion, she told Brooks that it was the first time she could remember not wanting to be dead.

He says it's hard to stay away from the office when there are so many people asking for help. "No one gets turned away, especially if they're suicidal," Brooks says. "It just gets more and more personal. I kind of see my son's face in everyone who comes in." B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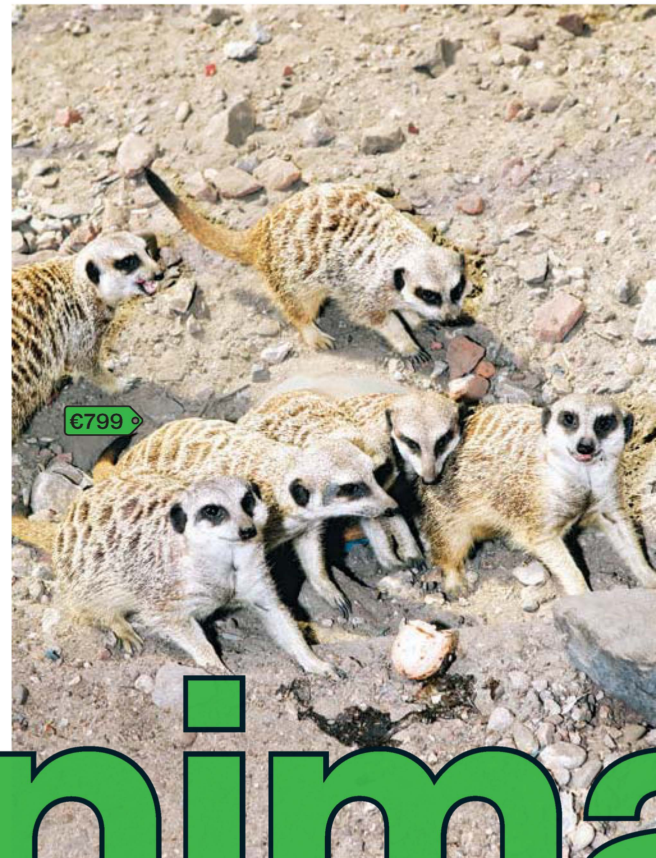
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Anima


Aufzucht Terrarien für
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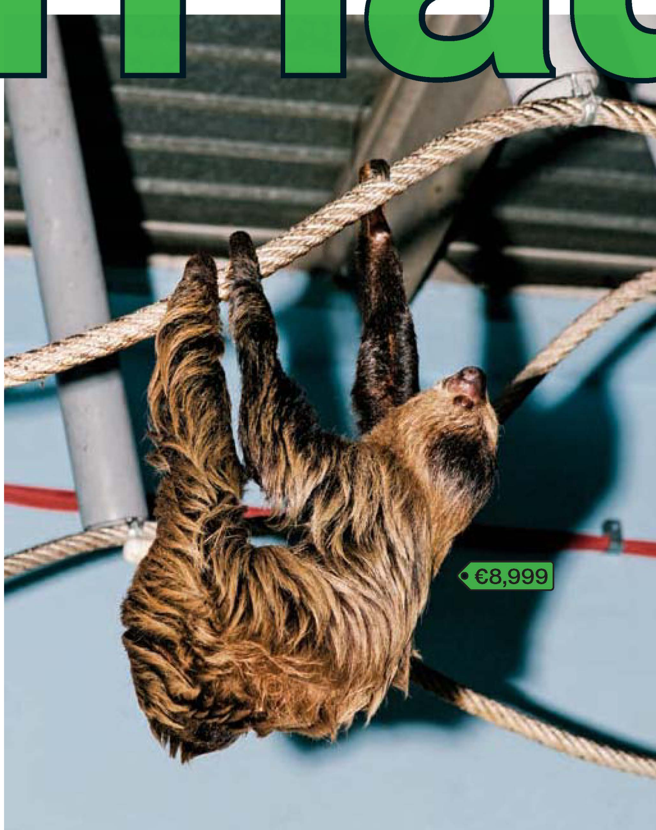
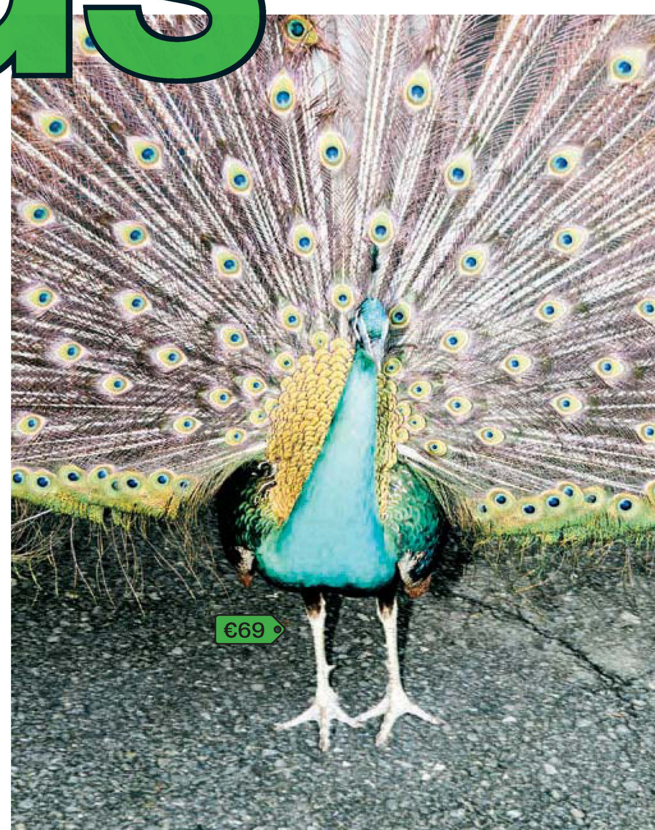




How Norbert Zajac built the world's biggest pet store

By Ben Crair

Photographs by Eriver Hijano

Norbert Zajac got his first pet, a golden hamster, when he was 4 years old. He took good care of her and bought a second hamster one year later. By the time he was 8, Zajac had bred more than 100 golden hamsters in the basement of his family's little home. His parents, a highway cop and a housewife in Gladbeck, Germany, said he could keep as many pets as he wanted, as long as he paid for them himself. Zajac began selling hamsters to local pet shops. He diversified, adding guinea pigs, salamanders, tortoises, and a crocodile. He took over the family garden and started raising birds. "When I found out about an animal, I wanted to hold it, and when I held an animal, I wanted to breed it," Zajac says. When he was in fifth grade, schools began taking field trips to his house. He became Germany's youngest licensed parrot breeder in 1967, when he was 13, and quickly cornered the local market on parakeets by training them to breed at Christmastime. At 14, Zajac asked a career counselor what he should do with his life. He was told to become a steelworker.

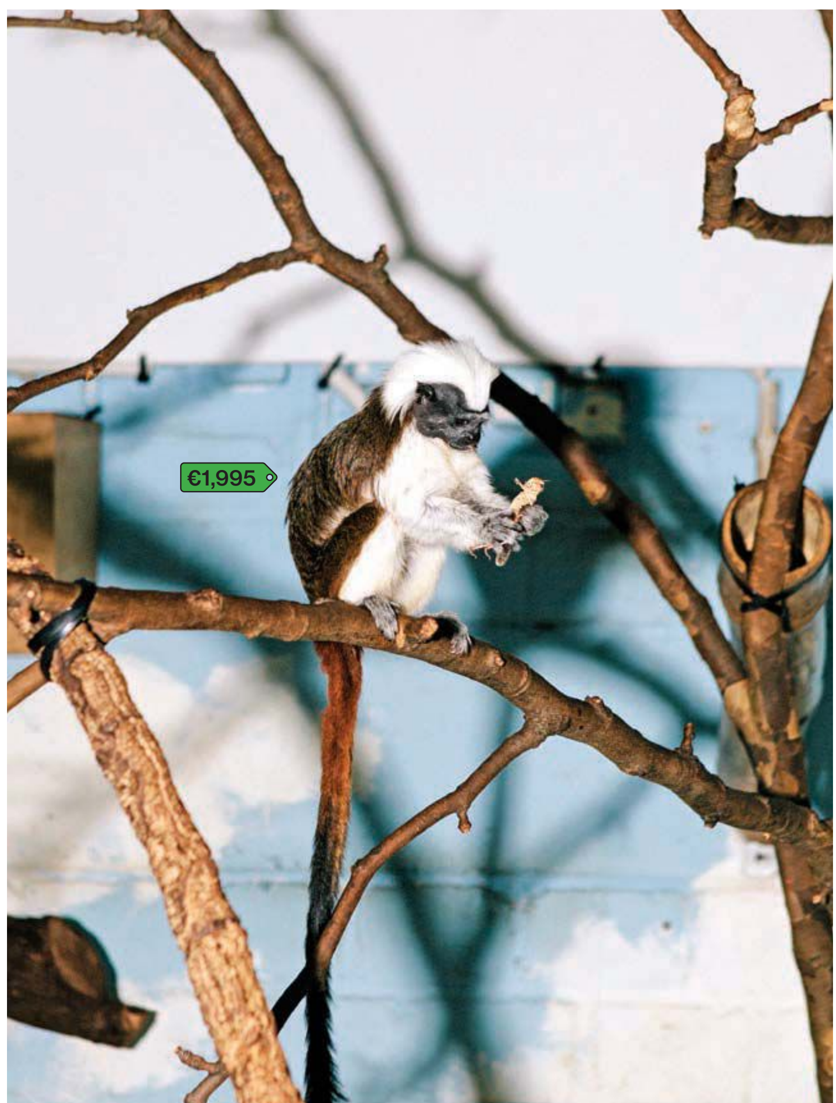
It was easy advice to give in the 1970s to a young man from the Ruhr Valley, the heart of the West German steel industry and the most populated part of the country. Zajac, who never graduated from high school, worked early shifts at the mill so he could be home to tend his animals before dusk. At 18, he sold most of his pets after he was conscripted into the military. Two years later he was working again at the steel mill when he saw an advertisement in the local paper. A pregnant woman in the city of Duisburg, near the Dutch border, was trying to sell her pet shop before she gave birth. Zajac borrowed money from his father and took over the small store on a quiet residential street in 1975.

Today, Zajac's pet shop fills a 130,000-square-foot warehouse in an industrial part of Duisburg. It's called Zoo Zajac, and it unfurls, like an airport terminal, along a horseshoe in the road. It's more than twice the size of the White House and three times as large as a Whole Foods Market. It is, according to *Guinness World Records*, the biggest pet shop in the world. A visitor can spend as much as €9,000 ($10,000) on a two-toed sloth or as little as €1.19 on a box of crickets. She can buy armadillos, meerkats, coatis, and monkeys; or fill aquariums with jellyfish, tetras, shellfish, and piranhas. Zoo Zajac sells 50 species of tarantula and maintains one of the finest reptile collections in western Europe—better, even, than many zoos. It houses about 250,000 individual animals of 3,000 different species. A walk around the place is essentially an endurance sport, which is why Zajac, a heavy man with two bad knees, zips up and down the aisles on a black moped. The vehicle never leaves the premises and logs more than 2,500 miles a year.

Zoo Zajac has become for the Ruhr Valley what Zajac's childhood home was for his classmates. "It's almost used as a gratis zoo by the people," says Ulrich Schürer, the former director of the nearby Zoo Wuppertal. As many as 12,000 visitors will arrive on a Saturday, and many of them won't buy anything at all, except for perhaps a currywurst or coffee at the cafeteria. Even the proper customers rarely obtain animals; the majority purchase only the tens of thousands of pet-care products that line the shelves between Zoo Zajac's tanks and cages: everything from aquarium filters to dog leashes to eyedrops for turtles. Live animals are expensive to maintain in a pet shop, and demand is relatively small. In the U.S., they make up only 6 percent of the retail pet market. "A pet store mostly subsists off of accessories and merchandise associated with the animal," Zajac says. "If I just sold only animals, I would lose €250,000 a year."

This has given rise to what he calls, sneeringly, "*Die Tierhandlung ohne Tiere*," or "the pet shop without pets." Many of the most successful pet businesses have stopped selling animals or scaled back to just a few low-maintenance species, even though their customers are crazier than ever about their little friends. In Western countries, where family sizes are shrinking, pet owners no longer treat their animals as property but as children, pampering them with products and services that would have once seemed ridiculous: bottled water, gluten-free kibble, doggy diapers, designer beds. The "humanization" trend has benefited more than just animals. The U.S. pet industry has more than tripled, to $60 billion, over the past 20 years, and pet care was one of the few retail industries to grow during the Great Recession.

Much of that growth, though, has accrued to big-box retailers rather than small pet shops. Chains slashed operating costs by eliminating live animals and exploited economies of scale to sell an ever-increasing variety of products as cheaply as pos-



A cotton-top tamarin enjoys a grasshopper

Zoo Zajac is the only pet store in Germany where customers can buy a dog

sible. In the U.S., PetSmart and Petco Animal Supplies capture more than half of industry revenue. In Germany, the pet-care chain Fressnapf operates more than 800 locations and claims nearly a third of all sales, according to the research firm Euromonitor International. Germany still has more than 5,000 independent pet shops, but their market share has dwindled to less than 15 percent.

"See the Bible, David and Goliath," says Zajac. "I am the little one with the slingshot." It's not the identification you would expect from the owner of the biggest pet shop in the world, but bigness was, for Zajac, an adaptation. While many independent shops disappeared or turned to high-end services like grooming or day care, Zajac took the opposite tack. He survived not through specialization, but through spectacle—by building a pet shop so large that it has gravitational pull. "Zoo Zajac's consumer experience is its advantage," says Antje Schreiber, a spokeswoman for the German Pet Trade & Industry Association. "If you don't look like a zoo today, your physical retail will have problems in the future."

Zajac's personal tour of Zoo Zajac can last as long as five hours and never less than two. Highlights include Zajac feeding grasshoppers to a family of little monkeys, who bite off the heads and gobble up the bodies two-handed, like a hoagie; a call-and-response duet between peacocks and the horn on Zajac's moped; and Zajac's T-shirt. He wears only animal-themed shirts from The Mountain, the clothier whose Three Wolf Moon design became an Internet meme after a sarcastic Amazon.com reviewer praised its ability to attract women. Zajac is particularly fond of shirts that spread the image of an animal, like a manatee or a gorilla, from his shoulders to his navel, as if his ample torso were an IMAX screen. "I think I am the only man who can fit two whole elephants on his shirt," he said recently, while looking through his wardrobe.

During a tour, Zajac might also feed fresh eggs from his chickens to a monitor lizard, or take you through the reptile tanks, which are stacked three high in long rows, like televisions in the window of an old electronics store. He'll tell you to look up when you pass underneath the sloths, who hang from ropes and branches on the ceiling. He'll warn you not to pet the ferrets: Last year he called five ambulances for ferret bites alone. After he's led you through the exotic mammals, the terrarium, the garden, the aquarium, the puppies, the birds, and the small mammals, he might take you to the parking lot for one of his favorite shows of all.

On a recent Saturday morning, Zajac rested his hand on the trunk of a customer's car and leaned over to examine the license plate. "Cologne," he said. "A hundred kilometers." Zajac had left his moped inside, so he shuffled to the next car and inspected its license plate as well. "Wuppertal," he said. "Eighty kilometers." He continued down the row of tiny European vehicles, estimating the distance of their journey to his store. Zajac was disappointed to find only a couple of international visitors, from the Netherlands; often he finds plates from hundreds of miles away, in France, Poland, and the U.K.

Germany isn't the country where most people would expect to find the world's biggest pet shop. Most German businesses are modest enterprises, and consumers there aren't impressed by immensity in and of itself. But German pet ownership, like many German enthusiasms, gets a little weird. In the U.S. the humanization trend has ridden largely on the backs of dogs and cats, whose owners spend the most money on their pets but are the least likely to buy their animals in pet shops. Germany, however, has some of the lowest rates of dog and cat ownership in all of Europe. Instead, there's an abundance of so-called exotic pets. Germans keep more small mammals—everything from chinchillas to ferrets to rabbits—per capita than all other Europeans, save the Dutch, and the country also has large populations of reptiles and fish.

Partly this is because of a "dog tax" that Germany imposes on owners of man's best friend, but there are other reasons for the popularity of rodents and reptiles. These animals suit Germans' famously fastidious lifestyles. "Small animals make less mess," Zajac says, "and they do not bother the neighbors." (A majority of Germans live in apartment buildings, while most western Europeans live in single-family homes.) Germans are also, by reputation, more analytical than sentimental, which could help explain their interest in animals that are observed in tanks or cages rather than commingled in the family home. In 2011, for instance, a group of British and Australian researchers counted 98 reptile shows in the European Union, 41 of which were in Germany. No other country had more than 15. Similarly, 7 of the 10 most visited European zoos in 2013 were in Germany, and the remaining three were in German-speaking Austria and Switzerland. (Zoo Zajac, which has about 1 million annual visitors, would rank in the top 30 of European zoos if it were eligible.)

Zajac always understood his countrymen's attraction to unusual animals, and he never thought of his pet shop as a simple site of exchange. He learned shortly after buying his first shop in 1975 that people would come to see strange creatures even if they didn't want to buy them. "There was always something new to look at," he says, "and since customers were already there, they would just buy anything else they needed." He took this revelation as a license to indulge his wildest pet fantasies. As a teenager, he'd tried to import animals from Singapore; as a shop owner, he hopped on an airplane and picked them up himself. He asked his customers which animals they dreamed of keeping and did his best to add them to the store.

Zoo Zajac's growth was fueled by Germany's development into the European country with the most money and the lowest birthrate, the two factors that lead consumers to lavish money on their pets. Residents of North Rhine-Westphalia, the state that contains Duisburg, spend more on their pets

Zajac on his moped. He logs more than 2,500 miles a year inside the store

than any other Germans. Zajac used to laugh about customers who spoiled their pets like children, but by 2000 their behavior was the norm. “Before, if somebody had a pond in their backyard, they would buy a bunch of goldfish at Easter and plant a bunch of flowers around the pond,” he says. “One week after Easter, the plants would be dead and the goldfish would be dead, too. Now if you buy a goldfish and it gets sick, you take it to the veterinarian.”

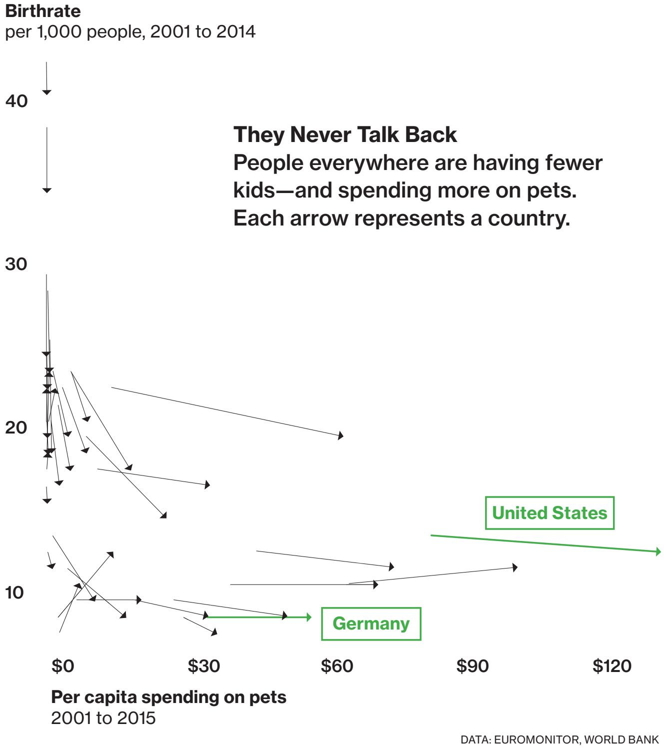
Zajac has observed customers asking more and more involved questions about their pets. “It’s like family planning,” he says. He filled his staff with certified experts and built a highly specialized bookshop. “Here, anytime anybody has a question, they can find an answer, and they’ll still come back even if it’s a little bit more expensive,” Zajac says. Two years after he bought his first shop, which was 700 square feet, Zajac started renting space in the house next door. He converted a storage area into a saltwater aquarium floor in 1978. He bought the building in 1982, eventually taking over his other neighbor, too. Independent pet shops were beginning to come under pressure, but Zajac found new opportunities. He started a mail-order business in 1987, which grew in the 1990s to make up as much as 70 percent of Zoo Zajac’s total sales. (The catalog today lists more than 600 pages of animal products.) He built a warehouse in the lot behind the shop in 1993, the same year he started organizing huge exhibitions of tropical fish in convention halls in Duisburg. Tens of thousands of people traveled from all over the world to visit and participate, and Zajac dreamed of a permanent pet shop of a similar magnitude.

By the early 2000s, Zoo Zajac had claimed all the space it possibly could in its original location. “The building authority said if I built one more thing, they’d tear it all down,” Zajac says. He started looking at industrial warehouses so he could continue growing. Banks were wary of lending money for such a mammoth upgrade, but the city of Duisburg stepped in to help. The steel industry had declined over the decades, and Duisburg was losing population every year. Zoo Zajac’s 140 employees were important to the local economy, so the city offered to lease a warehouse to Zajac until he could afford to buy it. He wrote a fundraising notice in his catalog, asking customers for loans to renovate the warehouse, which he would repay at 7 percent interest—a better rate than he could get from any bank. He raised €2 million in three months.

Zoo Zajac opened in its current location on Nov. 17, 2004. A few months later, *Guinness World Records* paid a visit. Zoo Zajac was, at the time, two-thirds of its present size, still large enough to earn it the distinction of the biggest pet shop in the world. Zajac lives on the second floor in a modest apartment behind his office with his wife, Jutta, and a mother-daughter pair of dachshunds. “I had to help her give birth here on the living room table,” he says. When Zajac is watching TV or relaxing in his hot tub, he’s never more than a flight of stairs away from his animal collection, just like when he bred hamsters in his basement as a little boy.

In 2012, Zajac added a controversial mammal to his inventory. Animal-rights activists picketed the store and called him greedy and irresponsible. More than 25,000 people sent a protest letter from PETA that included a cartoon of Zajac strangling the creature with a price tag around its neck. Zajac says he received multiple bomb and death threats. One pet food manufacturer withdrew its products from the store’s shelves. Even the German Pet Trade & Industry Association didn’t support him. “He offers some animals that we, the association of this industry, aren’t very happy with,” Schreiber says. The addition wasn’t vicious or endangered, but the most conventional pet of all. Zoo Zajac started selling puppies.

Zajac always sold dog food and supplies, but like all German pet shop owners, he’d stopped selling dogs themselves in the 1970s. He quit cats in 1985. People increasingly disapproved of the sale of the most affectionate species, and, despite Zoo Zajac’s



continual growth, it was hard to find sufficient space for cats and dogs in the store. Germany never legally prohibited their sale, but no other German pet shop was selling dogs when Zoo Zajac resumed in 2012. (The shop had started selling purebred cats again in 2007.) Zajac spent €800,000 on large kennels with heated floors and outdoor sections.

Zajac was responding to a changing market. Germany's dog and cat populations are growing, and the country's small-mammal population shrank more than 20 percent from 2008 to 2013, according to Euromonitor. Taste is becoming more conventional, shedding the quirks that made Zoo Zajac possible in the first place. But Germans may be no more willing than Americans to buy dogs and cats at pet stores. Zoo Zajac's puppy section is usually crowded with cooing spectators, but the shop has sold fewer dogs than anticipated—just 300 last year. And other pet shop owners have proved reluctant to follow his lead. Zoo Zajac is the only pet store in Germany where you can buy a dog.

Other challenges are mounting. Chains such as Fressnapf keep encroaching on Zoo Zajac's business—there are 16 Fressnapfs now within 10 miles of Duisburg, and Zajac paid one a visit on a recent summer afternoon. "I have nothing in common with this store," he said, walking the aisles. It smelled of linoleum, not rawhide and wood chips, and in lieu of Zoo Zajac's bestial cacophony, there was only some faint Europop. Zajac saw no animals for sale. He noted with satisfaction that the shop was only about 6,500 square feet, but turned sour after counting just two workers. In the same amount of space, Zajac employs 10 people. (His total staff of 200 includes three full-time veterinarians.) It depressed him to see how cheaply Fressnapf priced its products. It's impossible to keep up. "In the last five years, we've sold 30 percent more in products without making more money," he says. "We're actually fighting to survive."

There's also China, where Zajac fears his achievement will one day be surpassed. "I believe the Chinese can do anything," he says. And then there's the Internet. One of the curiosities about Zoo Zajac is that it grew big without growing modern. It has no central computer system and runs mostly off of paper: To answer a question about his daily operating costs, Zajac fetched a calculator and did the math. (His estimate: €25,000.) Zoo Zajac sells products online, but it's hard to build customer loyalty in a digital space where prices are so easily compared. "People come here because they want to have an experience," Zajac says. "Obviously, you can't experience things on the Internet." The Internet is hurting Zoo Zajac even when not cutting directly into sales: One of the store's draws has been its expertise, but now an answer is always just a Google search away.

The biggest question facing Zoo Zajac, though, may be whether it can outlive the man who built it. Zajac is just 60 years old, but he's not a paragon of health. He claims to have already died and been resuscitated on the operating table four times. The first three deaths came after he was stung by a lionfish at Zoo Zajac, and the fourth happened during knee replacement surgery. He's entrusted 49 percent of the company to his eldest daughter, Katja Banaszak, who will run it when he's no longer able. She manages many of its business operations, while her father focuses on marketing and publicity. Banaszak is a thoughtful and soft-spoken woman with shoulder-length hair, rimless glasses, and a totally normal wardrobe. She admires her father, but she hasn't quite inherited his obsessions. "He always has extreme ideas," she says, with loving exasperation. "He wants to have penguins." Zajac thinks he can get them from a German zoo, but so far his daughter has persuaded him to hold off. Banaszak doesn't think the world's biggest pet shop needs penguins, or any other new animals. "It's big enough already." B

Prairie dogs in their pen

Met Opera 2015-16
LIVE ON SCREEN IN CINEMAS
Il Trovatore Verdi OCT 3 Encore Oct 7
Otello Verdi OCT 17 Encore Oct 21
Tannhäuser Wagner OCT 31 Encore Nov 4
Lulu Berg NOV 21 Encore Dec 2
The Magic Flute Special 10th Anniversary Encore Presentation DEC 19
Les Pêcheurs de Perles (The Pearl Fishers) Bizet JAN 16 Encore Jan 20
Turandot Puccini JAN 30 Encore Feb 3
Manon Lescaut Puccini MAR 5 Encore Mar 9
Madama Butterfly Puccini APR 2 Encore Apr 6
Roberto Devereux Donizetti APR 16 Encore Apr 20
Elektra Strauss APR 30 Encore May 4
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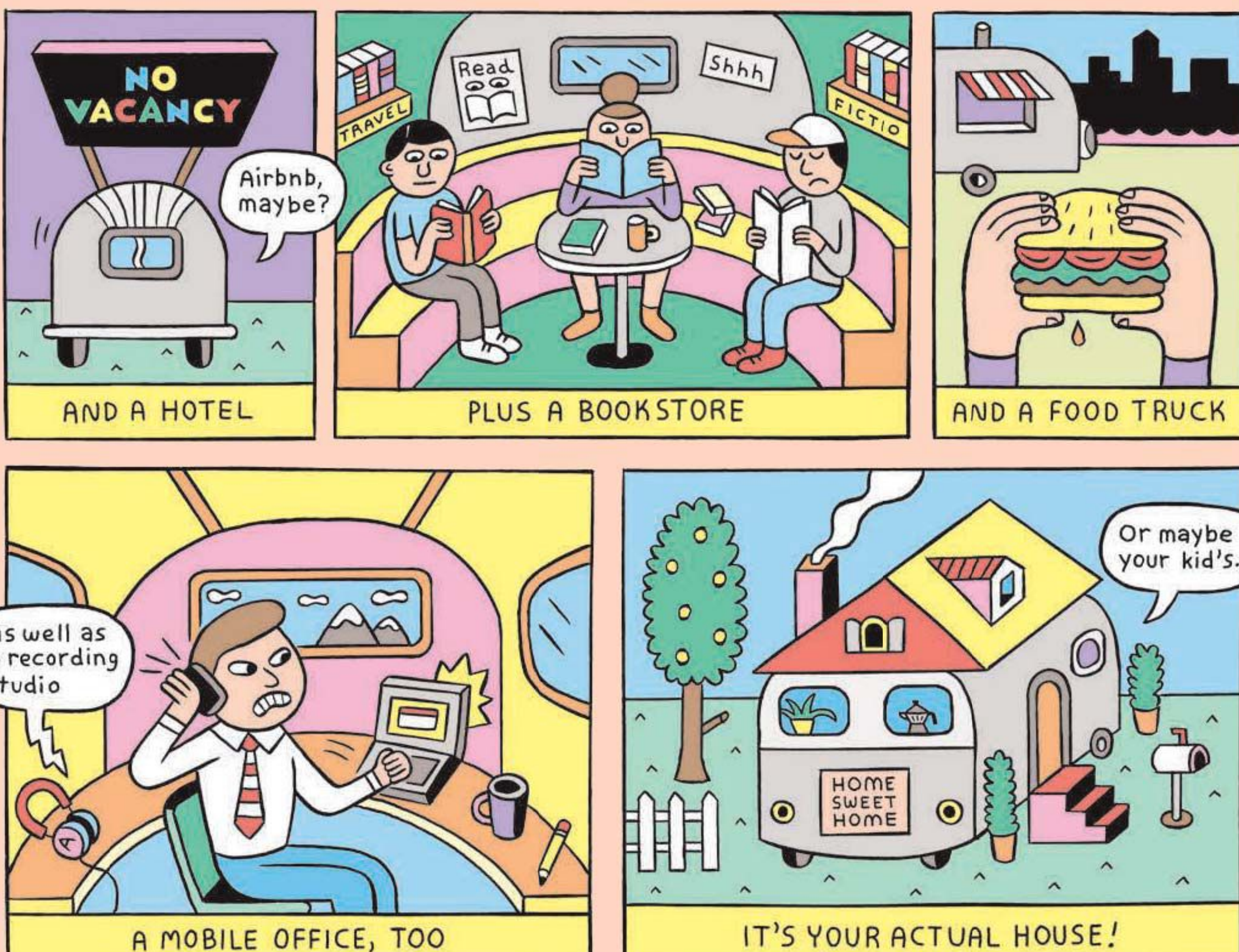
AIRSTREAM AMERICA

THE COMPANY BEHIND LAST CENTURY'S HOTTEST RV HAS NO IDEA HOW IT BECAME SO HIP—AND PROFITABLE—AGAIN. OR HOW TO KEEP THAT MOMENTUM GOING

BY CLAIRE SUDDATH



Illustrations by Andy Rementer

Jordan Menzel had separated from his wife two years ago when he sold his Salt Lake City house for $350,000 and needed a place to live. “I didn’t want to buy a home again, and I didn’t want to spend obscene amounts on rent, either,” he says. Biking through town one day, he saw a 1976 silver Airstream for sale on the side of the road. Menzel had never owned an RV nor been inside an Airstream before, but with “dangerously little foresight,” he says, he bought the trailer for $4,000.

Menzel, 31, spent three months tearing out the 40-year-old shag carpet and junking outdated appliances. Then he parked it in a friend’s 40-acre field. He’s still there—well, technically he’s moved to a nearby yard—and when he’s not, he rents his Airstream out on Airbnb for $100 a night. Menzel, who works in software marketing, estimates he’s already saved about $40,000 in rent. “At first people thought, Oh, Jordan’s going through a midlife crisis,” he says. “But it’s not a trend for me.”


Menzel and daughter at his Airstream

That’s not to say Airstreams haven’t become trendy. In recent years, hotels, offices, and restaurants have cropped up in stationary Airstreams on both coasts. Five have become a motel in Santa Barbara, Calif. Another five sell ice cream and juice in Seaside, Fla. A concert venue in Austin uses one for its green room. The B-52s singer Kate Pierson—the redhead—has a handful of rentable Airstreams outside Joshua Tree National Park. And Zappos.com Chief Executive Officer Tony Hsieh has been living in one for nine months. He recently bought 20 more to create his own Airstream trailer park for the aspiring tech bros he’s importing to redevelop downtown Las Vegas. “It’s by far my favorite place to live,” Hsieh says. “It has more amenities than the average hotel room.”

So many people are buying Airstreams that the company says it’s selling five times as many as it did in 2009. (And that doesn’t count vintage models like Menzel’s.) Airstream won’t disclose revenue, but its parent company, Thor Industries, sold more than $3.5 billion worth of recreational vehicles last year. “The question I used to get most often was: ‘Airstream, you still make those things?’ ” says Bob Wheeler, Airstream’s president. “People had no idea we even still existed.”

Since 1952 the company has been headquartered in a former World War II bazooka factory in Jackson Center, Ohio, a one-stoplight town 75 miles northwest of Columbus. There, Airstream makes about 60 towable trailers a week in models ranging from the 16-foot Bambi ($44,000) to the 28-foot Land Yacht ($146,000) to a touring coach built on a Mercedes-Benz chassis ($155,000), which the rich use when they want to ride in style. Everything is handmade—the rivets fastened, the aluminum cut, the furniture sanded—by the company’s 560 employees. This year, Airstream spent $6 million to build new office space and expand its factory by several thousand square feet. It also hired 130 people to catch up with demand.

The RV industry only recently recovered from the last recession. People are vacationing again, but less elaborately—that’s why about 380,000 motor homes and trailers will be sold this year, according to the Recreational Vehicle Industry Association, 7 percent more than in 2014. Retirees purchase

RIPPING OUT THE SHAG RUG

Designer Christopher Deam on his long-overdue overhaul

The first thing he did was strip the vinyl siding off the walls

The old fluorescents were like those at a dentist’s office

The windows weren’t placed to let in the most light, so it made you claustrophobic

Beige carpeting and blond wood cabinets felt instantly dated


BEFORE

He added aluminum on the interior, which bounces natural light better

Deam also removed the plastic casing from all the windows: “It calmed the aesthetic down,” he says

The dinette has a bench you can see underneath, to make the floor area seem larger

Modern, mini-appliances are easily accessed but not obtrusive

Wood floors!

The furniture’s clean lines eliminate bulk


AFTER

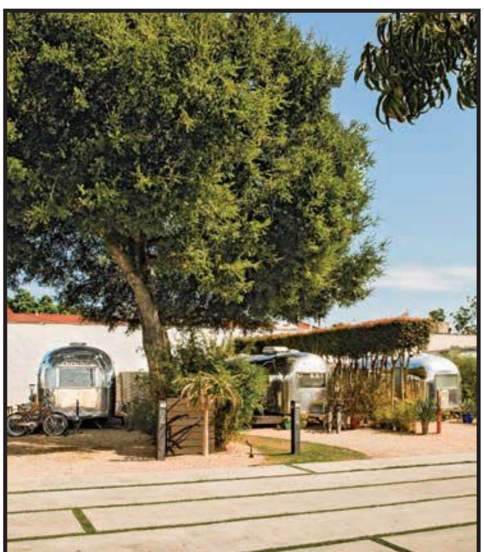
MENZEL: PHOTOGRAPH BY DOLLY FAIBYSHEV FOR BLOOMBERG BUSINESSWEEK. AUTOCAMP: PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

most of them, but younger folks have gotten into them, too. "It's a lifestyle shift," says Kevin Broom, RVIA's spokesman. "Trailers make for good weekend trips."

The Airstream boom dovetails with a few other lifestyle trends: First, many Americans have become obsessed with decluttering, moving into so-called tiny homes and reading best-selling books like Marie Kondo's *The Life-Changing Magic of Tidying Up*. Second, room-sharing services such as Airbnb have made it cool to stay in atypical accommodations. Finally, in most U.S. cities, food trucks are still thriving; many Airstreams have windows that open outward to form a counter. "We just fell right into that one," Wheeler says.

Then, of course, there's the ongoing fixation with all things nostalgic, whether it's heritage-inspired fashion, midcentury modern furniture, or Prohibition-era cocktails. Airstream is basically the same thing on wheels. There are pictures of John F. Kennedy using one as a mobile office and of the *Apollo 11* astronauts being quarantined in one after returning from the moon. Many brands turn to Airstream when they want to push their own vintage-inspired goods. The company worked with Fender on a mobile recording booth and loaned a few to Levi's, which used them as gift-wrapping stations. "People contact us out of the blue," says Mollie Hansen, Airstream's vice president for marketing. "It's free publicity. We almost never refuse."

"DRIVE ONE DOWN THE ROAD, AND YOU'LL SEE. PEOPLE ALWAYS TURN THEIR HEAD FOR AN AIRSTREAM"



Santa Barbara's Autocamp motel

Airstream was founded in 1932 by Wally Byam, a California outdoorsman who designed a teardrop-shaped wooden trailer for his wife, Marion, after she complained about camping in tents. He named it Airstream because he wanted it to sound fast and aerodynamic, even though neither applied at the time. Soon after, Byam bought out one of his competitors, William Hawley Bowlus, an aeronautical engineer who was selling aluminum trailers that borrowed from airplane aesthetics. Byam reconfigured the shiny trailer, renamed it the Airstream Flying Cloud, and sold it for $1,200 (about $20,600 today). That was considered expensive, so Airstream made a trailer only after someone ordered one, a practice the company maintains today. The exterior hasn't changed much. "They still look so modern," says Ryan Miller, 25, who co-founded Santa Barbara's all-Airstream motel, Autocamp, in 2012; it will expand to San Francisco next year. "Drive one down the road, and you'll see. People always turn their head for an Airstream," he says.

Sales took off as the expanding middle class bought cars—and trailers to hitch to those cars. But after Byam died in 1962, Airstream stagnated. The conglomerate Beatrice Foods owned it for a little more than a decade and almost ran it out of business. When Indiana-based Thor Industries bought the ailing brand in 1980, it didn't even have to make a down payment, because Beatrice was desperate to unload it. Thor doubled down on Airstream's classic silver trailers but had trouble attracting younger buyers. "Our interiors looked like your grandmother's kitchen," says Wheeler, who came on board in 2002.

That started changing in 2000, when San Francisco architect Christopher Deam renovated the interior of a vintage one to look both retro and futuristic, like something out of *The Jetsons*. He contacted Airstream with the idea of forming a partnership but couldn't get anyone to return his calls. "That's not our customer," Airstream eventually told Deam. So he designed one himself and took it to the high-end International Contemporary Furniture Fair. "We called him back after that," Wheeler says.

After, Deam designed a line of sleek interiors that resembled a tiny Ikea showroom. His models now make up about 25 percent of the company's sales. The rest of Airstream's trailers look more like they're from a discount furniture store, which the company says recent retirees still prefer.

Many people who buy Airstreams don't live in them. And Wheeler admits his company hasn't figured out the "alternate-use movement," as he calls it. When people purchase a trailer for road trips, they want the newest model. But when the trailer is part of a kitschy hotel concept or a tech company's office décor, the buyers often go vintage—which doesn't make the company money. Craigslist and EBay are awash with models dating to the 1950s. Airstream estimates 70 percent of all the trailers it's ever made are still in use.

Wheeler also has a hard time recruiting young employees. Few recent college graduates want to live in an 800-person town in Ohio. "The only millennials we have here are interns," he says. "That's a problem. We need them to help us figure out the future." Wheeler recently built a fitness center to woo junior staff, yet "it's still 30 minutes to the nearest grocery store," says Matthew Robison, 21, a Columbus College of Art and Design student who's interning there now. He has no plans to stay for a full-time job.

This summer the corporate office is moving from an old building with plywood walls into a new, shiny aluminum space, though Wheeler remains hesitant to expand too quickly. He knows the hip ideas propping up Airstream could quickly become lame. He doesn't want to be left with an enormous factory, tons of employees, and a product no one wants. "That's what I wake up at 2 a.m. thinking about," he says. "Is it all a fad?" Ⓑ

BEFORE AND AFTER: COURTESY AIRSTREAM. LETTERING BY ANDY REMENTER

IN BRIEF

Modern commuter bags—spiffed up with premium materials, smart storage, and durable shoulder straps—are this fall's grown-up, go-everywhere office assistant. By Jason Chen

SHINOLA MEDIUM TOTE

After focusing on Detroit-made watches and bikes, Shinola is shifting into luxe leather goods. Designed by Richard Lambertson and John Truex, who had a hot bag line in the aughts and then designed for Tiffany, the line sells efficient items that go from "workday to weekend out of town," Truex says. This one has a square bottom, to sit upright under your desk, along with a button closure and shoulder strap. It's very organized inside, with pockets for tablets, phones, and several pens—but be cautious of marking the light exterior. *$895; shinola.com*

The untreated leather, from Chicago's Horween tannery, will darken and develop a unique patina as you wear it

The nylon is water-repellent—great for a morning when you're worried about a downpour

J.CREW HARWICK BRIEFCASE

With its military hue and narrow silhouette, the Harwick resembles a bike messenger's style. The neon orange interior has a padded pocket for laptop storage, and there are double front pockets for cords and cables. "Many of J.Crew's bags are waxed cotton or oilcloth," says men's designer Frank Muytjens. "So we went with a nylon fabric to create a cleaner aesthetic with real functionality." The lightweight textile is also employed in dopp kits, duffels, and more options to be released this fall. *$98; jcrew.com*

PHOTOGRAPH BY TED CAVANAUGH FOR BLOOMBERG BUSINESSWEEK

DESTROY THE SUMMER SLUMP

Car-washing competitions, unlimited vacation, and other ways bosses keep their charges going during the dog days. By Arianne Cohen

"We're motivating our flight attendants with recognition programs, including monthly cash bonuses, bucket-list trip giveaways, and other prizes as a way to say thanks."

Allison Ausband
Senior vice president for in-flight service, Delta Air Lines

"We foster year-round opportunities to work from home when needed, as well as flexible hours, which our team especially values during the warm months. At headquarters, we have lunch BBQs with live music so staff can take a break and enjoy the weather."

Julie Bauer
President, Panasonic Consumer Electronics

"I establish what I need done and by when, and then allow everyone to figure out for themselves how to make that work. Keeping the air conditioner cranked and starting office happy hour early also helps."

Michael Alter
Chief executive officer, Tie Bar

"Because a lot of people are out, this is a great time to do one-on-one time with direct reports. My team is spread out around the globe, so we use HireVue for video calls. It's smart to call on your direct reports below the equator who are not feeling the summer slowdown."

Oriana Vogel
Vice president for global recruitment and human resources operations, American Express

"We have an unlimited paid time-off policy, since high performance requires a sharp mind."

John Boiler
Co-founder, 72andSunny

"We are heads-down with the worldwide launch of our platform, so during these long days we'll eat, run, and cycle together. For August, we have a luau picnic, a hackathon, soccer and pingpong tournaments, and, of course, show and tell for the new features we build."

David Gurle
CEO, Symphony

"We encourage employees to share travel stories and photos with colleagues. This reminds everyone to plan their vacations before the summer is over. In customer service, it's important to be well-rested."

Sharon Fernandez
Head of service operations, Farmers Insurance

"Summer is our busiest time, so we get creative: This year we're having a companywide challenge on friendliness. I will hand-wash the car of each employee who sees the largest increase in team friendliness scores on guest satisfaction surveys."

Kim Schaefer
CEO, Great Wolf Resorts

ILLUSTRATIONS BY CARI VANDER YACHT

EAT THE ENEMY

Clever chefs fight against invasive species—by serving them for dinner
By Maridel Reyes

You've heard of the locavore, but what about the invasivore? Whether it's lionfish, which are ruining reefs in Mexico, or wild boar, tearing up California valleys, invasive species are the latest offering on menus around the world. After being accidentally introduced to local habitats, where **most of them don't have natural predators**, these organisms multiply–often at a rapid pace–causing environmental stress, infrastructure harm, and even health problems. Pioneering chefs are taking sustainability one step further by working with foragers, fishermen, and hunters as a form of edible conservation. "I was looking to utilize ingredients that may not be mainstream," says Taylor Naples of Craft New York. "Then I realized these items had great flavor." Here's a global guide to some of the animals, fish, and plants you might order next.

Chew Your Weeds

Three new plants to try

At Craft New York, citrusy **purslane tips** cut the fattiness of foie gras *torchon*. The weed was introduced to the U.S. by early settlers from Europe; left unchecked, it forms a dense carpet.

Garlic mustard enlivens a marinade for alpaca strip loin at Juniper in Burlington, Vt. In nature, the plant out-competes wildflowers and gets in the way of grazing fauna.

The tart leaves of **Japanese knotweed** are pickled and fried at Miya's Sushi in New Haven. First brought from Asia as an ornamental, it chokes most ecosystems and disrupts landscaping.

◀

Wild Boar Bruschetta

The hogs, which are native to Europe and Asia, were first brought over by explorers to the U.S. in the 1700s. Eventually, they broke free from their owners and went feral, and now you'll find them coast to coast. At Giorgio's in Salinas, Calif., chef Alessio Giannuzzi serves his swine with tomato bruschetta and prosciutto he cures himself. **Boar meat is dark and lean, packing a more intense flavor than cured ham**, like a gamey version of regular pork. Giannuzzi also adds boar–a popular meat in Italy–to a ragout for pasta dishes such as pappardelle and lasagna.

Other Guilt-Free Meats

Sick of eating pork? There are several more exotic options. In Puerto Rico, **kiosks sell iguana kebabs.** In Fitzroy, Australia, Charcoal Lane offers a wild rabbit terrine. In Miami, several cooks are experimenting with Burmese python–the escaped pets are destroying the Everglades.

BRUSCHETTA: PHOTOGRAPH BY MOLLY MATALON FOR BLOOMBERG BUSINESSWEEK. TACOS: PHOTOGRAPH BY ERIC HELGAS FOR BLOOMBERG BUSINESSWEEK

▲

Dogfish Tacos

The coastal cuisine served at Seamore's, a new restaurant in downtown Manhattan, relies on many sea critters, including the dogfish—a "trash fish" that's crowding parts of the Atlantic Ocean—and lionfish. You can order any of them in tacos, on blackened-fish sandwiches, or over seasonal salads. The restaurant collaborates with Dock to Dish, a new program in New York, Florida, and Boston that works with fishermen to get the freshest possible produce. Seamore's gets its dogfish—which is technically a shark and **tastes a bit like scallops but less chewy**—from nearby Montauk, on Long Island.

There are more than 50 invasive fish throughout the world's oceans. Many are now being discovered as safe to eat and delicious, too.

This disgusting creature, known as lionfish, is harming the fishing industry on the coastal U.S. It's buttery and tasty—only after removing the poisonous spines.

Tambaqui Fish Ribs

Served at Sea Salt in Naples, Fla., **these resemble baby-back ribs** but are more tender. They come from Amazon Fish Co., which employs locals to catch the 200-pound beasts throughout Brazil.

Moon Jellyfish

Chef John Cox of Big Sur's Post Ranch Inn dices and **plates them with lemon and ginger**. Left alone, the pests eat 10 times their weight daily and reproduce rapidly.

Fried Red Snapper

The Atlantic's most well-known invader, it became big in the 1970s after fishing seasons were introduced. It has since gone global: The JW Marriott Khao Lak Resort & Spa in Phang Nga, Thailand, suggests dipping it into sweet-and-sour sauce.

TAMBAQUI FISH RIBS: LANE; MOON JELLYFISH: CHEF JOHN COX; PLATES: ALAMY (3)

Chin in a scene from the movie

ANTI-EVEREST

Jimmy Chin's documentary takes the motivations of climbers—and other obsessive professionals—over the top. By Brad Wieners

Making a living as a mountaineer is as iffy as it is dangerous. Aspiring pros typically spend years living out of a van, dumpster-diving with raccoons for food in campground parking lots, and climbing as often as they can. The best ones find a mentor, work summers as park guides, and pick up some sponsors, though they're often paid in swag, not the kind of cash that passes for a real salary. At last, they go on expeditions to the world's major ranges, and if the mission is sufficiently dramatic or they're fortunate enough to survive a CNN-worthy catastrophe, they begin second careers as motivational speakers.

That path presents a comic paradox, and not only because it's funny to watch someone who sleeps in the dirt school suited executives on leadership. Rather, it's because while much of what mountaineers can speak to—forecasting, contingency planning, teamwork—is relevant to corporate audiences, climbers are often vague and self-deluded about what motivates them. "Because it's there" is George Mallory's famous explanation for attempting to summit Mt. Everest. Even that's preferable to the more common refrain, "If you have to ask, you'll never understand."

Jimmy Chin wanted to do better. An extreme skier from Jackson, Wyo., and two-time Everest summiteer, Chin has the career most alpinists dream of. Actually, he has three: as an athlete sponsored by North Face; as a photographer for *National Geographic*; and as a filmmaker. A few years ago, he shot on location in Nepal for the early stages of the big-budget *Everest* (out on Sept. 18). Meanwhile, he worked on his own documentary, *Meru*, which lands in theaters this month.

In 2008, Chin set out to capture an insanely difficult first ascent of the Shark's Fin, the central spire of Meru Peak, a 22,000-foot mountain at the headwaters of the Ganges River in the Indian (Garhwal) Himalayas. He planned to scale it with his mentor, Conrad Anker, and their mentee, Renan Ozturk, but they didn't make it. With only 300 feet to go, they turned around, uncertain they could summit so late in the day and still return to safety. Chin swore not to go back.

What was a huge letdown has, seven years later, yielded a riveting full-length feature—one that transcends the climbing niche to openly explore defeat, risk, and the limits of loyalty. Co-directed by Chin and his wife, Elizabeth Chai Vasarhelyi, it won the 2015 Sundance audience award. Mostly it follows the three amigos as they go back for another try in 2011—"They say that the best alpinists are the ones with the worst memory," Chin says. As *Meru* unfolds, we cut from the mountains to studio interviews with each climber and their loved ones and brief commentary from experts such as *Into Thin Air* author Jon Krakauer. It's he who deems the remote, Sherpa-free Shark's Fin "the anti-Everest."

As *Meru* toggles between vertigo-inducing panoramas and claustrophobic tedium inside a tent, it's easy to forget how hard the doc was to film. Back home, we learn about Chin's parents fleeing the communist revolution in China and the promise he kept with his mom to outlive her. We visit an emergency room with Ozturk when he fractures his skull and wonder if he'll prove a liability to his friends. And we get Anker's redemption story. After losing his best friend and climbing partner, Alex Lowe, to an avalanche in 1999, Anker married his widow, Jenni, and adopted her three sons. She has several of the film's best lines.

"THE BEST ALPINISTS ARE THE ONES WITH THE WORST MEMORY"

Given what Jenni's been through, it's unthinkable she might lose Anker, too, to his Meru obsession. But Chin is too devoted to Anker to call it off. Some viewers will find them selfish for proceeding, even as they pull for them to make it. "The rewards of climbing are huge," Krakauer says in *Meru*. But when people die, "you can't justify it. That's the great dilemma." Ⓑ

RENAN OZTURK/COURTESY MUSIC BOX FILMS

JACQUELINE DEL ROSARIO

53, founder and chief executive officer, Recapturing the Vision International, Miami

PHOTOGRAPH BY BRIAN GUIDO FOR BLOOMBERG BUSINESSWEEK

What's Recapturing the Vision?
A philanthropy I began 21 years ago to work with underserved families to produce healthy, vibrant children. We provide mentoring, case management, and clinical services.

You also go by "Dr. Jacquie, America's Marriage Coach."
I realized that most of people's pain is around relationships, and I think everyone understands they're essential to our happiness. Dr. Jacquie wants to spread the news there's hope for healthy families.

What goes into that?
Groups, workshops, seminars, and TV, of course, on various networks, both national and local.

Why is fashion important?
The way we present ourselves to the world has a lot to do with the types of places we want to go and the things we want to do.

What's your color strategy?
I look the best in brighter colors, but it's difficult to find them. The most beautiful pieces are in black or gray. It's because black sells.

Do you have a particular style?
Expressive. I try to have a polished look, because that's what I like.

How do you pick your outfits?
I'm someone who feels a certain way in the morning and picks clothing that addresses that.

Where do you shop?
Online. I have to shop often. When you know your designers, you can be quick.

Any fashion advice?
Don't follow trends. Choose what suits you best.

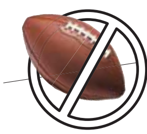
Interview by Arianne Cohen

How Did I Get Here?

SCOTT HEIFERMAN

Co-founder and chief executive officer, Meetup

"My mom died when I was a sophomore, and I was sort of on my own. There were four siblings 15 to 20 years older than me—I have like six parents."



"It's a Big Ten school, and I'm probably one of very few alumni who's never gone to a football game."

Education

Homewood-Flossmoor High School, Flossmoor, Ill., class of 1990

University of Iowa, class of 1994

At Lake Forest Computer Camp, 1983

"I digitized the inventory of my parents' paint store when I was 10. The pay was food and shelter."

Work Experience

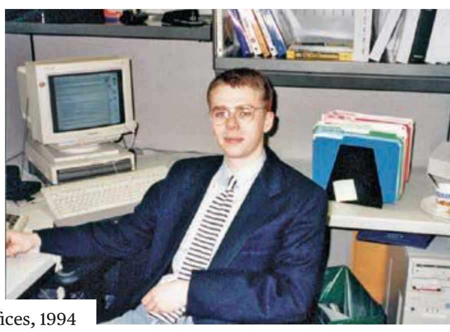
1994–95
Interactive marketing frontiersman, Sony

1995–99
Co-founder and CEO, I-traffic

2000
Counter person and fry guy, McDonald's

2000–02
Career break

2002–Present
Co-founder and CEO, Meetup



At Sony offices, 1994

"I pitched the idea that Sony should think about the Internet. Then I built the company's first online presence."

"It was a profitable 100-person online media-buying agency. It sold to Agency.com."

Working at McDonald's, 2000

"I'd forgotten what it's like to be in real business, selling something real. In my interview the manager saw that I was the co-founder of a technology company, didn't give a s---, and then asked my pants size."

"If everyone did something like that, the minimum wage would've increased yesterday."

Protesting for Internet freedom, 2012

"We found ourselves on the *New York Times* A1 for Howard Dean's Meetups. And then this guy running for Senate named Barack Obama said he'd go to any Meetup where 100 people signed up."

Meetup

"As a company, we haven't gotten involved in the 2016 election, but we've seen a lot of organic activity. Bernie Sanders's supporters have done the most self-organizing, sparking more than 50 Meetups across the country."

Meeting President Clinton at the Electronic Commerce ceremony and reception, 1997

Life Lessons

1. "Find your conspirators, the folks who share a passion with you." **2.** "The biggest problem is that the smartest people aren't working on the biggest problems. Don't sell sugar water." **3.** "It's easy to go through life thinking you're winning the game, but ask yourself, What game are you winning?"

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